

# The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF



THE INCORPORATED ACCOUNTANTS' JOURNAL is published monthly, on the first day of each month, at an Annual Subscription of 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 3d., postage extra.

## Contents.

	PAGE
Professional Notes .. .. .	183
Some Thoughts on Industrial Development (Article) .. .. .	186
Bankers' Books as Account Stated (Article) .. .. .	187
The Society of Incorporated Accountants and Auditors:—	
Membership .. .. .	188
Changes and Removals .. .. .	189
Companies Bill .. .. .	190
Correspondence:	
Registered Book-keepers .. .. .	194
Taxation and Trade .. .. .	194
Claim for Misrepresentation .. .. .	194
Estate Accounts and Head Office Administration: Lecture by Mr. J. B. M. Rennie, F.S.A.A. .. .. .	195
Bradford and District Society of Incorporated Accountants: Lecture and Dinner .. .. .	199
Present Day Tendencies of Industrial and Commercial Development: Paper by Dr. W. H. Coates, LL.B. .. .. .	202
Incorporated Accountants' Students' Society of London:—	
Annual Meeting .. .. .	210
The Accounts of Rubber and Tea Companies: Lecture by Mr. C. W. Braddy, A.C.A., Incorporated Accountant .. .. .	212
District Societies of Incorporated Accountants .. .. .	218
Reviews .. .. .	220
Obituary .. .. .	220
Scottish Notes .. .. .	220
Legal Notes .. .. .	221

## Professional Notes.

MR. HENRY MORGAN, F.S.A.A., Vice-President of the Society of Incorporated Accountants and Auditors, has been appointed by the Treasury a member of the Board of Referees in the place of Mr. W. T. Walton, F.S.A.A., who has resigned. Mr. C. Hewetson Nelson, F.S.A.A., has been a member of the Board since it was first constituted many years ago when the excess profits duty was enacted.

We are indebted to a correspondent for calling our attention to a case recently before the Worcester City magistrates where a solicitor's clerk was charged with falsification of accounts and the embezzlement of £1,825. The accounts were duly audited, and it was proved in evidence that bankers' certificates of balances for the years 1923 to 1926 were handed to the auditor by the defendant, but in each case the figures in the certificate had been altered and these alterations were not discovered.

What happened in regard to the pass book is not clear from the evidence, but the solicitor for the defence is reported to have said that "the pass book was a farce on the face of it." The moral of the case, as our correspondent points out, is that certificates of bank balances should be sent direct to the auditor and not through the medium of those whose accounts are under examination.

We have no concern in party politics, but we ought not to disregard the result of the labours of any responsible body of men merely because it is in the form of a report drawn up from a particular standpoint. "Britain's Industrial Future" is the title of the Report of the Liberal Industrial Inquiry, published by Ernest Benn, Limited. It comprises over 500 well printed pages, the material for which has been prepared by special committees dealing with various divisions of the wide field covered by the inquiry. We cannot do more in this column than make some reference to the second part of the Report covering the "organisation of business."

We pass over the chapter devoted to "the public concern," wherein is discussed the difference between individualism and socialism, and confine our attention to a review of the "Joint Stock Company." Here we think the Special Committee have been particularly unwise because they have ignored the report of the Companies' Committee of the Board of Trade upon which the Companies Bill now before Parliament is based. This Committee had for its Chairman the well known leader of the Chancery Bar, Mr. Wilfrid Greene, K.C., and comprised amongst its members leading representatives of commerce, finance and accountancy, and of both branches of the legal profession. The Committee had no party colour and no political bias, and it held 38 meetings and examined 39 witnesses, and reported, upon evidence carefully sifted, that the great majority of limited companies, both public and private, were honestly and conscientiously managed. The Liberal Industrial Committee seems to have spent an undue amount of time in discussing the rigging of markets and share speculations which have little to do with the honest management of industrial concerns under limited liability.

The observations of the Liberal Committee in regard to "accounts" are most sweeping. For instance "the misleading nature of the published balance-sheets of public companies is, indeed, the subject of general adverse comment. It is widely felt that matters are getting worse rather than better, and public opinion is in favour of a change." On the other hand the Companies' Committee of

the Board of Trade say—"With regard to the form of accounts, although in general we consider that shareholders and others concerned have little ground for complaint, cases occur where the information given by the accounts is of a scanty nature, particularly where assets are so grouped together under one heading that the true position of the company cannot be readily ascertained," and recommendations are made for removing grounds of complaint.

As regards the duties of auditors, the Liberal report says:—We think that the now existing societies of Chartered Accountants and of Incorporated Accountants might, perhaps, be amalgamated under a Charter; that the auditors of public companies should be required to be members of this united body, and that its council should be given the duty of maintaining the highest professional standards together with strong disciplinary powers for enforcing them. It should be part of the duties of auditors to see that the publicity provisions of the revised Company Law are fully satisfied, to keep an eye on under-valuation of assets, as well as on over-valuation, to call the attention of the shareholders to any matters of importance which it would be in their interest to know, and to elucidate in their report any item in the balance-sheet as published, which might, in their opinion, mislead a competent person as to the true position of the company's affairs.

The Companies Bill which was held over from last Session has now been read a second time in the House of Commons. The President of the Board of Trade in moving the second reading explained that there was no intention of bringing the new Bill into force until the Consolidating Act, which will follow immediately, has been passed. It is proposed, however, to bring into operation at once the clauses dealing with "share pushing" which the Government recognise as requiring immediate attention. In another column we publish extracts from a pamphlet issued by the Board of Trade showing the effect on the various sections of the Companies (Consolidation) Act, 1908, of the amendments contained in the Bill. This is no doubt intended to overcome the objection to legislation by reference, as the new words introduced are given in italics and the deleted words are bracketed.

The Seventeenth Report of the Commissioners of Inland Revenue for the year ended March 31st last, contains some interesting details regarding the national income and expenditure. Estate Duty which amounted to £59,000,000, showed an increase of £24,000,000 since 1919, which was the first year to

benefit from the raising of the rate of duty to a maximum of 40 per cent. on the higher incomes. In that year the revenue from this source was £35,000,000 and has increased every year since. Last year, about 10 per cent. of the duty was derived from estates of the gross value of over £3,000,000, and almost a similar percentage from estates ranging between £100,000 and £150,000. These percentages fluctuate greatly, however, according to whether a particular year has derived duties from one or two very large estates. The gross income of the nation for 1926-27 was estimated at £2,900,000,000. This was reduced for taxation purposes by exemptions, abatements and allowances to £1,300,000,000, which produced in tax £233,000,000, equal to £4,850,000 for each penny of the normal rate of tax.

An interesting point relating to the application for discharge by a bankrupt arose in the case of *Barnett Smulevitch*. One of the grounds on which the application was opposed by the Official Receiver was the insufficiency of assets to equal 10s. in the £ on the amount of the unsecured liabilities. It transpired, however, that a dividend of 11s. in the £ had been paid to the creditors. This took place after proceedings had been taken against B. Smulevitch, Limited, for the purpose of setting aside the transfer of the business. The point was whether the value of the assets was to be taken at the date of the receiving order or at the date of the hearing of the application for discharge. Mr. Registrar Mellor held that the latter was the correct date to take, and that therefore no offence had been committed under that head.

The decision in the case of *Roe v. Russell* which we referred to in our Professional Notes last month has been partially reversed by the Court of Appeal. The question was whether a statutory tenant under the Rent Restriction Acts had a right to sub-let. The Divisional Court came to the conclusion that there was no such right, but the Court of Appeal has now held that, subject to apportionment of the standard rent of the tenant's premises so as to prevent the sub-tenant from being charged an extortionate rent, a statutory tenant is entitled to sub-let a part of the premises but not the whole. Their Lordships were not prepared to say, however, what the position of the sub-tenants would be if by a series of sub-lettings the whole of the premises were sub-let. Some strong remarks were made by the Court with regard to the drafting of the Rent Restriction Acts, and Lord Justice Scrutton went so far as to say that he regretted he could not order the costs to be paid by the draughtsmen of those Acts and the legislature who passed them.



In the will of a testator named Alfred Gates the main provision was "I leave all my money to Alfred George Cabell." The estate consisted of furniture, cash at bank, outstanding mortgages, stocks and shares, and the equity of redemption of freehold cottages, and the Probate Court had to decide what was meant by the words "all my money." The President (Lord Merrivale) said it was common ground that the will must be construed according to the true meaning of the words used and having proper regard to the situation of the testator and the nature of the assets. After quoting various authorities the conclusion he arrived at was that the will disposed of all the testator's estate except the furniture and the equity of redemption of the cottages. He did not consider that the testator used the word "money" to include either furniture or real estate.

There came before the Privy Council the other day a case in which a bank note for \$500, issued by the Hongkong and Shanghai Banking Corporation, had been accidentally destroyed. It had been received by a lady as a gift and placed in the pocket of a garment where it was forgotten. The garment in question had subsequently been washed, dried and starched by the lady herself, and on proceeding to iron it the bank note was discovered, but it was so damaged that the parts could not be collected to make it complete and the number of the note was missing. In these circumstances the question arose whether the bank was liable to pay the amount in view of the provisions of sect. 64 of the Bills of Exchange Act, 1892, which is reproduced in the Hong Kong Ordinance. The main point in the section is that "where a bill or acceptance is materially altered without the assent of all the parties liable on the bill, the bill is avoided except as against a party who has himself made, authorised or assented to the alteration, and subsequent endorsers."

Lord Buckmaster, in delivering judgment to the effect that the bank was liable upon the note, said that in their Lordship's opinion the contract in this case had never been altered and was sufficiently evidenced by the mutilated document and the oral testimony. They desired their judgment however to be limited to the one point that in the special circumstances of this case it was possible by means of the fragments of the document and the oral evidence which was submitted, to establish a claim against the bank for the \$500 due upon the note.

Difficulties are continually arising with regard to the assessment of income arising abroad. The most recent example is *Butler v. Mortgage Company of Egypt, Limited*. In this case the objects of the

company were to lend money on mortgage of land in Egypt, and to purchase debentures or other obligations secured by mortgages of land in that country. It was admitted by the Inland Revenue authorities that the control of the company was not in this country, and accordingly the assessment was made under Case 4 of Schedule D on the footing that the company's income arose from securities outside the United Kingdom. The defence was that the profits were derived from the trade of lending money in Egypt, and that it was only an incident in the course of carrying on the trade of moneylending that mortgages were obtained from borrowers. Mr. Justice Rowlatt decided that the company was assessable under Case 4 on the income of the securities, and that it made no difference whatever that the securities were acquired as incidents in the carrying on of the trade.

Another doubtful point was decided in the case of *Walker v. Howard* in relation to the question of a new source of income. The appellant's wife had for several years been in receipt of about £10 interest on 5 per cent. War Loan from the trustees of her marriage settlement, and for the year 1924-25 she received the usual amount. On April 1st, 1925, the appellant purchased a large block of the same security, and during 1925-26 received interest amounting to about £3,600. This amount he did not include in his income tax return for 1925-26, and an additional assessment was made upon him in respect thereof on the ground that it was from a source which first arose in that year. He objected and claimed that there was no new source; that under the Income Tax Acts his wife's income was his income, and that therefore he was assessable only on the small amount of income from the same source which his wife received the preceding year. The Special Commissioners held that the £3,600 was derived from a new source, but on appeal Mr. Justice Rowlatt has decided that the effect of proviso No. 1 to Rule 16 (all Schedules) was to make the profits of a married woman living with her husband to be his profits. The £10 of income received by his wife in the preceding year was therefore his income, and he was accordingly assessable on that amount only.

An agreement has been concluded between the British and the German Governments for the avoidance of double taxation of shipping profits. The first arrangement of this character was made with the United States of America in 1923, and similar agreements have since been made with Norway, Denmark and Sweden. The agreement with Germany takes effect as from April, 1923, and it

is arranged that in the case of the place of business and the place of financial management being separated, the place of business management shall be the determining factor.

## Some Thoughts on Industrial Development.

THERE is published in another column a Paper read before the Liverpool and District Society of Incorporated Accountants by Dr. W. H. Coates, Treasurer of the Imperial Chemical Industries and an Examiner to the Society, on "Present Day Tendencies of Industrial and Commercial Development." The paper is a comprehensive review of the present condition and needs of British industry. It presents succinctly some illuminating lines of thought and substantial practical suggestions. Dr. Coates brings to his subject the experience of general business and industrial conditions, obtained as an official of the Board of Inland Revenue and from his close contact with the administration of one of the largest consolidated undertakings in this country.

Dr. Coates rightly assumes the organic character of British industry and commerce. In his view—shared by a number of authorities—the development of new policies must be based upon precise statistical information. The compilation and handling of statistics in each industry should be entrusted to advisory staffs of economic and statistical experts. Great progress has been made in this direction in the United States with considerable advantage to large-scale industry. It will be admitted that many methods used with advantage in the United States cannot necessarily be applied in precisely the same way to the different conditions obtaining in this country; nevertheless, new ideas and experiments, wherever originating, demand serious attention. Some of them may be applied advantageously, with or without modification. After a period of hesitation, British industry turned to organised research in technical processes, which has stimulated several important industries. Similarly, there is room for economic staffs, attached to British industries and commercial undertakings. If it be urged that American industry indulges in too much investigation, British industry has probably indulged in too little.

The proposals made relate chiefly to the internal economy of large undertakings. From the professional point of view, they do not appear to affect the responsible duties of auditors of companies, except in so far as exact records facilitate their

work. A useful recommendation is made for the adoption of budgeting for commercial and industrial finance and costing. There is yet another angle from which younger Incorporated Accountants might consider the new forms of industrial organisation. Here are opportunities for those well-equipped by professional training and the continuous pursuit of economics and statistics. If opportunities depend upon the progress of British industry, high capacity and leadership are needed.

The paper comprises an analysis of the conditions of British industry and present economic conditions. By collating a number of recent investigations, it is suggested that the volume of production in 1924 in Great Britain was not less than 9 per cent., and not more than 15 per cent. greater than it was in 1907. Happily it may be assumed that this increase has now been considerably extended. Even so, further progress must be made before the country can enjoy resources per head equal to those of 1913—a year of greater prosperity than 1907. The distribution of income between spending and saving calls for particular attention. Since 1913 there has been a decrease in real savings of 150 to 200 millions sterling per annum, reckoned in present money values. Consequently the flow of foreign investments has been reduced, and foreign investments carry away from this country a large volume of exports. On the other hand, the Colwyn Committee stated that if observation suggested that extravagance and luxury had increased, this might mean that pleasure-seeking had become more socially obtrusive without having grown in amount. The fact remains, however, that overseas loans by Great Britain have been substantially curtailed. At the same time overseas countries now manufacture articles they hitherto purchased. All these factors have seriously affected British industry.

These facts give cause for reflection but not for alarm. They indicate the problems confronting us. It is considered they are capable of gradual solution. New methods and new policies must be tried—scientific management, regrouping, the constitution of new forms of organisation, the elimination of waste, and the stabilisation of production and employment. This is called the "rationalisation" of industry. Dr. Coates justifies rationalisation from a public, as well as from a business point of view. Rationalisation is being studied and practised in a new atmosphere. The old idea that industrial combines were opposed to public policy, if not to sound economics, has been modified. To-day rationalisation has for its object large ideals—wider markets, bigger production, a smaller profit per unit but a larger aggregate, the best possible treatment of the worker, and the highest level of



service for the consumer. The pursuit of such ideals by private enterprise calls for enlightened and capable leadership of the highest type.

Rationalisation, therefore, implies much more than mere combination. Some forms of industry and business peculiarly lend themselves to large-scale production. But we cannot omit from review the large amount of "small business," as opposed to "large business" in this country. The President of the Society of Incorporated Accountants drew attention to this fact in his speech to the members in May last. Many people have a high regard for the social and psychological advantages, which small enterprise means to the country, even if, in a purely economic sense, larger units of production might be more efficient. Incorporated Accountants know from first-hand experience, the enterprise and initiative shown by men of good average capacity and moderate capital. These would not gladly surrender their freedom of management to become a part of larger organisations. But there is also an economic factor, for, as Mr. Keens said, "there is a stage in every industry at which the size of its unit of economic production represents maximum efficiency." The addition of other units might only increase the cost of production.

Dr. Coates draws attention to the fact that amalgamations and concentrations may proceed (1) from circumstances of financial prosperity, or (2) from adversity and over-production. He suggests that insufficient attention has been given to the possibilities of re-organisation where an industry is unfavourably situated. Such re-organisation would lead to the elimination of the barely-profitable or unprofitable units of production. This aspect presents much practical difficulty. The fact is that rationalisation has mostly taken place in conditions of prosperity.

In a section of the paper dealing with capital and the reward for risk, a challenging suggestion is made. Is it possible to contemplate a limit on the rate of dividend which any class of capital may take without adverse economic consequences? In other words, might the ordinary or deferred capital of industrial undertakings be treated similarly to that of those public utility undertakings where the rate of dividend is limited? Surplus profits would be accumulated for extensions and to form a reservoir for the maintenance of wages in times of depression. This is a far-reaching proposal and cannot be dealt with in the space of a short article, but it may be noted that the present restrictions are confined to undertakings which are in the nature of monopolies.

There are other matters in the paper which will repay a careful study. It is significant and hopeful that a new approach is being sought to many difficult problems.

## Bankers' Books as Account Stated.

WHERE parties mutually agree that a certain sum is due from one to the other an account stated is said to arise, and the law implies a promise to pay on the part of the one from whom such sum has been agreed to be due, on which the other party may sue without being put to the proof of the correctness of the account.

It cannot be dogmatically stated that an entry made in a pass book is in all cases conclusive and binding on the bank, or conclusive or binding on the customer; each case must be judged on its own particular facts, although the customer in whose favour the entry stands starts with the advantage that *prima facie* it is an admission by the bank in his favour, which cannot in some cases be rebutted. It was said in *Akrokerri Mines v. Economic Bank* (1904) 2 K.B., 470 that entries made in a pass book by the bank are statements on which the customer is entitled to act. That may be so in certain events, but if a customer, after some months, examines his pass book and sees a credit of £2,000 and a debit of a similar amount immediately afterwards, and knows nothing about either entry, he is not entitled to regard and accept the credit as a payment and to disregard and repudiate the debit. In every case where it is sought to treat a mere book entry as a payment some other circumstance must be present and relied upon to enable the customer in whose favour it is made to succeed, either some express previous authority to pay, or some communication of the making of the entry to the customer and some acting on it by him. There must be something in the nature both of a payment by one party and a receipt by the other, or some alteration in his position by the customer in whose favour the bank entry was made, in order to induce the Court to say that the entry constitutes a payment, and that the money cannot be recovered from him. In *British and North European Bank v. Zalstein* (1927) 2 K.B., 92 the defendant was a customer of plaintiffs. Towards the end of 1923, the defendant's account being overdrawn, the plaintiffs' manager, for his own purpose and in order to deceive the auditors, placed £2,000 to the credit of the defendant's account from another source. The account was subsequently debited with a like amount, the credit and debit being thus merely book entries. The defendant knew nothing of these transactions until afterwards, when his account showed an adverse balance of £2,392. In an action by the plaintiffs for the recovery of this sum the defendant claimed that the entry of £2,000 to his credit was a payment

to him and that his overdraft was to that extent liquidated. It was held, on the facts, that the defendant could not accept the credit without regarding also the debit, and that the plaintiffs were entitled to recover. In this case the defendant never knew of the entry or alleged payment until after a debit of a similar amount had been made, and never altered his position because of it. Although it could not be said that mere acquiescence in the debit entry bound him, there was ground for saying that there was no payment at all in this case. The Court held that the bank manager never meant the entry to be a payment or to appropriate it as such; and that the defendant himself eventually knew of it and never regarded the entry as a payment.

The question as to the binding effect of pass book entries was considered in *Kepitigalla Rubber Estates v. National Bank of India* (1909) 2 K.B., 1010, where it was held that the mere fact that a customer of a bank takes his pass book out of the bank and returns it without objecting to any of the entries contained therein, there being a pencil entry of the balance, does not amount to a settlement of the account as between him and the bank in respect of those entries. In *Lewes Sanitary Laundry Company v. Barclay, Bevan & Co.* (1906) 11 Com. Cas., 255, the pass book was seen at least once by the directors when it contained entries of three forged cheques and it was returned without objection, but this was held to be no answer to the customer's claim for repayment. The opposite view, that pass book entries constitute an account stated, is found in *Akrokerri Mines v. Economic Bank* (*supra*). A question there arose as to the effect of a bank crediting a customer with the amount of a cheque before clearance. It was decided, as was afterwards laid down by the Bills of Exchange (Crossed Cheques) Act, 1906, that the entries in the bank's ledgers did not transform the bank from collecting agents into holders for value, nor did the entries give the customer any right to draw the money out. It might have been different if the entries had been made in the pass book as that book belongs to the customer, and the entries made in it by the bank are statements on which the customer is entitled to act.

Sometimes a third party, having made payments into a customer's account, claims a refund on the ground of mistake. The banks, as trustees for their customers, have taken the view that their books constitute an account stated. In *Admiralty Commissioners v. National Provincial & Union Bank of England* (1922) 88 T.L.R., 492 the Admiralty claimed £140 paid into the account of an officer in ignorance of the fact that he had been killed two years previously. It was held that a contract by a bank to honour its cheques did not include amounts by which the account was swollen by inadvertent payments under a mistake of fact. Judgment was therefore given against the bank. It thus appears, as a matter of law, that entries in a banker's books do not constitute an account stated.

## Society of Incorporated Accountants and Auditors.

### MEMBERSHIP.

The following additions to and promotions in the Membership of the Society have been completed since our last issue:—

### ASSOCIATES TO FELLOWS.

- CONDIE, JAMES, Commercial Bank Buildings, 104, High Street, Dunfermline, Practising Accountant.  
 DANIELS, ARTHUR, Bank House, 63, Osborne Road, Southsea, Portsmouth, Practising Accountant.  
 FITZGERALD, JOSEPH MARTIN (Kevans & Son), 31, Dame Street, Dublin, Practising Accountant.  
 WILLIAMS, ERNEST (Bruce, Cuvilje & Co.), 2, Stuart Street, Cardiff, Practising Accountant.

### ASSOCIATES.

- BARNES, ERIC JOSEPH, Clerk to Evans Smith, Boothroyd and Co., 79, Mark Lane, London, E.C.3.  
 BINNS, WILFRED LESLIE, Clerk to Wright & Co., 9/10, Pancras Lane, London, E.C.4.  
 BOYDELL, FRANK WAINWRIGHT, Clerk to Langton & MacConal, 22, Lord Street, Liverpool.  
 BROWN, LESLIE ELLIOTT, 1, Devonshire Road, Palmers Green, London, N.13, Practising Accountant.  
 CHERRY, ROGER HOPE, Clerk to E. R. Bradley, 584, Christchurch Road, Boscombe.  
 DAVIES, IVOR, Clerk to Clarke, Dovey & Co., 31, Queen Street, Cardiff.  
 DORNAN, ARTHUR BERNARD, Borough Treasurer's Department, Lambeth Town Hall, Brixton Hill, London, S.W.2.  
 FAUX, RICHARD, Clerk to Henry Bradfield & Sons, Midland Bank Chambers, Mansfield.  
 FLETCHER, HORACE REGINALD, Clerk to R. Carey Watchorn, Alliance Chambers, Horsefair Street, Leicester.  
 GITTINS, LAWRENCE WALTER, City Treasurer's Office, Municipal Buildings, Dale Street, Liverpool.  
 GRIFFITHS, BERNARD MILLAR, Borough Treasurer's Office, Municipal Offices, Southampton.  
 HALLAM, ALBERT, Clerk to F. W. Fox, 14, King Street, Leicester.  
 HASLAM, ERIC, Borough Treasurer's Department, Warrington.  
 HEARD, ROLAND ARTHUR BURNARD, Clerk to Walter Hunter, Bartlett & Co., 24, Bridge Street, Newport, Mon.  
 HELLIER, GEORGE, Clerk to William Ashworth, 7A, Yorkshire Street, Burnley.  
 HONEYBONE, JOSEPH WALTER, Clerk to Ralph H. Bridgwater, 3, New Street, Birmingham.  
 HOWARD, ARTHUR GEORGE, Clerk to F. Morse & Co., 1/2, Great Winchester Street, London, E.C.2.  
 MISTRY, MANECK PHEROX, Clerk to Gharda, Davar & Co., Jehangir Wadia Building, 49, Esplanade Road, Fort, Bombay.  
 MYERS, MAURICE, Clerk to John Gordon & Co., 7, Bond Place, Leeds.  
 NICHOLL, WILLIAM, Borough Treasurer's Office, Town Hall, Preston.  
 NICKLIN, SELWYN JOSEPH, City Treasurer's Department, The Council House, Birmingham.  
 PARSONS, FREDERICK LEONARD, Clerk to Hicks, Walters & Co., 15, George Street, Mansion House, London, E.C.4.  
 PENNINGTON, NORMAN FRANK, Clerk to Armstrong, Worrall & Co., 41, Corporation Street, Manchester.  
 PHILIP, ALEXANDER, Chamberlain's Department, Municipal Buildings, Greenock.



PHILLIPS, ARTHUR FRANK, Borough Treasurer's Department, Town Hall, Huddersfield.

PICKARD, GEORGE OSMOND WINFIELD, Clerk to Beevers & Adgie, 26, Park Row, Leeds.

POLLARD, NORMAN ANGLISS, Clerk to James Todd, 18, Birley Street, Blackpool.

POPLE, HARRY WILKIN, Clerk to George A. Peace & Co., 6/7, Scottish Chambers, 48, Castle Street, Liverpool.

POYNTER, ERNEST, Clerk to Singleton, Fabian & Co., 8, Staple Inn, London, W.C.2.

PRESTON, JOHN BEESLEY, Clerk to Carpenter, Arnold & Turner, Midland Bank Chambers, North Street, Brighton.

PROUDLOVE, THOMAS, Assistant Inspector of Taxes, Central Hall, Corporation Street, Birmingham.

RATHBONE, SYDNEY, Clerk to Thos. Smethurst & Co., Prince's Chambers, 26, Pall Mall, Manchester.

REYNOLDS, WALTER EDWARD, Clerk to Nevill, Hovey, Smith & Co., 20, Victoria Street, Paignton.

RICHARDS, WILLIAM CYRIL, Clerk to Edward T. Carr, 13, Harrington Street, Liverpool.

ROY, ABANI MOHAN, M.A., B.Com., Clerk to Copeland & Allan, 90, Mitchell Street, Glasgow.

SINCLAIR, JAMES, Clerk to Atkinson & Boyd, 63, Hill Street, Newry.

STACEY, FRANK LESLIE, Clerk to Phipps & Co., 329, High Holborn, London, W.C.1.

STEPHENS, ROBERT LESLIE, Clerk to Vaughan & Gregg, Lloyds Bank Buildings, King Street, Manchester.

STEVENSON, JOHN HERBERT, Clerk to Banner, Spencer & Co., 41, Castle Street, Liverpool.

STREET, CHARLES FREDERICK SAMUEL, Clerk to Pettitt & Son, Lloyds Bank Chambers, Bournemouth.

SUMMERSKILL, JAMES CHARLES, Clerk to James Summerskill, 21, Victoria Street, Liverpool.

TAYLOR, GEORGE HERBERT, Clerk to Gough & Wright, 267/268, Castle Street, Dudley.

TAYLOR, RALPH EDWIN, Clerk to Banner, Spencer & Co., 41, Castle Street, Liverpool.

TAYLOR, WILLIAM, Clerk to John Potter & Oldman, 27, North Albert Street, Fleetwood.

THORNTON, CLIFFORD, Clerk to Percival Clarkson, 19, Winckley Square, Preston.

TOPHAM, FRANCIS HAROLD, Clerk to William A. Judge, High Street, Skipton.

TOWNSEND, ARTHUR EDWARD, Clerk to Alfred E. Sising, 9, Clinton Street West, Nottingham.

VAN DER POEL, HENDRIK ROUX, Clerk to C. L. Andersson, Gibson & Co., 143, Longmarket Street, Cape Town, South Africa.

VARRALL, LEWIS OSWALD, Assistant Accountant, Ministry of Labour, Finance Department, Kew.

WALTON, WILLIAM, Clerk to R. B. Walker, 1, Richmond Terrace, Blackburn.

WARREN, RALPH, Clerk to Frederick J. Warren, M.B.E., 3, Victoria Place, Castle Square, Haverfordwest.

WILLIAMS, THOMAS LLEWELLYN, County Accountant's Department, Shire Hall, Bedford.

WOOD, ARTHUR LESLIE, Borough Accountant, Town Hall, Hemel Hempstead.

Mr. Henry J. Burgess, F.S.A.A., of 14, St. Mary Axe, London, E.C.3, a Member of the Council of the Society of Incorporated Accountants and Auditors, was on February 9th elected to fill a vacancy in the Ward of Aldgate on the Court of Common Council for the City of London.

## Changes and Removals.

Mr. Laurence Bailey, Mr. A. J. Johnston and Mr. C. E. Williams, Incorporated Accountants, have entered into partnership, and will practise at 8, Harrington Street, Liverpool. The firm name will be Bailey, Johnston & Williams.

Messrs. Buzzacott, Lillywhite & Co., Incorporated Accountants, 16/17, King Street, Cheapside, London, E.C., and Burgess Hill, Sussex, have opened a branch office at Central Buildings, Bognor.

Mr. A. H. Crumpton, Incorporated Accountant, has commenced public practice at Oxford Chambers, Cliff Street, Bridlington.

Mr. T. W. Dresser, Incorporated Accountant, 97, Albion Street, Leeds, will remove to new offices at 29, Cookridge Street, Leeds, during March, 1928, and the address of the Secretary's office of the Yorkshire District Society of Incorporated Accountants will also be at 29, Cookridge Street, Leeds, as from March 31st, 1928.

Mr. H. Hodge, Incorporated Accountant, is removing to National Provincial Chambers, High Street, Kettering, and is taking into partnership Mr. C. F. Baxter, Incorporated Accountant. The title of the firm will be Hodge & Baxter.

Messrs. Keens, Shay, Keens & Co., Incorporated Accountants, Bilbao House, New Broad Street, London, E.C., Luton, Bedford, and elsewhere, announce that they have amalgamated their practice with that of Mr. Albert Law, F.C.A., Incorporated Accountant, Lloyds Bank Chambers, Church Street, Sheffield. The style of the firm will remain unaltered except in Sheffield, where the practice will be carried on under the name of Keens, Shay, Law & Co., with Mr. Law as resident partner.

Mr. Leslie A. Lewis, Incorporated Accountant, has removed to King William Chambers, 27/28, King William Street, London, E.C.

Messrs. H. E. Mattinson & Morden, Incorporated Accountants, 36/41, Salisbury House, Smith Street, Durban, have taken into partnership Mr. N. S. Tod, Incorporated Accountant. There will be no change in the name of the firm.

Messrs. Pawley & Malyon, Incorporated Accountants, have removed to 62, Finsbury Pavement, London, E.C.

Messrs. Saffery, Sons & Co., Chartered Accountants, 14, Old Jewry Chambers, London, E.C., announce that Mr. Francis J. Saffery, F.C.A., has retired from the firm. They have admitted into partnership Mr. T. H. Nicholson, A.C.A., Incorporated Accountant.

Mr. L. E. Stewart, Incorporated Accountant, announces that he is continuing in practice under the name of Newton & Stewart (instead of J. Newton & Co., as formerly) at 55/57, Abington Street, Northampton. Mr. J. H. C. Newton remains a member of the firm.

Mr. H. H. Bobart, M.B.E., F.S.A.A., of Messrs. H. H. Bobart and Co., of Gresham College, Basinghall Street, London, has been the recipient of a presentation by the Worshipful Company of Basket Makers of which he has acted as Clerk for 21 years. The present took the form of a cabinet of cutlery which bore the following inscription—Presented to Henry Hodgkinson Bobart, M.B.E., F.S.A.A., by the Wardens and Court of Assistants, as a mark of appreciation and esteem, after 21 years of devoted service as their Clerk. February 13th, 1928.

## COMPANIES BILL.

The Board of Trade has issued a pamphlet showing the effect of the amendments proposed by the Companies Bill when these are incorporated in the Companies (Consolidation) Act, 1908. The following are extracts from the pamphlet relating to the matters with which accountants are more particularly concerned:—

*Note 1.*—The sections mentioned are those of the Companies Act, 1908.

- 2.—The clauses are the clauses of the Bill.
- 3.—Words added by the Bill are italicised.
- 4.—Words deleted by the Bill are in square brackets.
- 5.—The words and figures, which appear in square brackets immediately after the title of each section, refer to the clause or schedule of the Bill which effects the proposed amendment.

### SECT. 26.—ANNUAL LIST OF MEMBERS AND SUMMARY.

#### [Clause 5.]

—(1) Every company having a share capital shall once at least in every year make a list of all persons who, on the fourteenth day after the first or only ordinary general meeting in the year, are members of the company, and of all persons who have ceased to be members since the date of the last return or (in the case of the first return) of the incorporation of the company.

(3) *Except where the company is a private company, the list aforesaid shall include a written copy, certified by the manager or secretary of the company to be a true copy, of the last balance-sheet which has been audited by the company's auditors (including every document required by law to be annexed thereto), together with a copy of the report of the auditors thereon and, if any such balance-sheet is in a foreign language there shall also be annexed to it a translation thereof in English, certified in the prescribed manner to be a correct translation:*

*Provided that, if the said last balance-sheet did not comply with the requirements of the law as in force at the date of the audit with respect to the form of balance-sheets there shall be made such additions to and corrections in the said copy as would have been required to be made in the said balance-sheet in order to make it comply with the said requirements, and the fact that the said copy has been so amended shall be stated thereon.*

[The summary must also (except where the company is a private company) include a statement, made up to such date as may be specified in the statement, in the form of a balance-sheet, audited by the company's auditors, and containing a summary of its share capital, its liabilities, and its assets, giving such particulars as will disclose the general nature of those liabilities and assets, and how the values of the fixed assets have been arrived at, but the balance-sheet need not include a statement of profit and loss.]

(4) The above list and summary must be contained in a separate part of the register of members, and must be completed within [seven days] *fourteen days* after the fourteenth day aforesaid, and the company must forthwith forward to the registrar of companies a copy signed by a director or by the manager or by the secretary of the company.

### SECT. 69.—DEFINITIONS OF EXTRAORDINARY AND SPECIAL RESOLUTIONS.

#### [Clause 21.]

—(1) A resolution shall be an extraordinary resolution when it has been passed by a majority of not less than three-fourths of such members [entitled to vote as are present] as, *being entitled so to do, vote in person or by proxy (where proxies*

*are allowed)* at a general meeting of which notice specifying the intention to propose the resolution as an extraordinary resolution has been duly given.

(2) *A resolution shall be a special resolution when it has been passed by such a majority as is required for the passing of an extraordinary resolution and at a general meeting of which not less than fourteen days' notice, specifying the intention to propose the resolution as a special resolution has been duly given:*

*Provided that, if all the members entitled to attend and vote at any such meeting so agree, a resolution may be proposed and passed as a special resolution at a meeting of which less than fourteen days' notice has been given.*

[(2) A resolution shall be a special resolution when it has been—

(a) Passed in manner required for the passing of an extraordinary resolution; and

(b) Confirmed by a majority of such members entitled to vote as are present in person or by proxy (where proxies are allowed) at a subsequent general meeting, of which notice has been duly given, and held after an interval of not less than fourteen days, nor more than one month, from the date of the first meeting.]

(3) At any meeting at which an extraordinary resolution is submitted to be passed or a special resolution is submitted to be passed [or confirmed] a declaration of the chairman that the resolution is carried shall, unless a poll is demanded, be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

(4) At any meeting at which an extraordinary resolution [is submitted to be passed] or a special resolution is submitted to be passed [or confirmed] a poll [may be demanded] shall be taken to be effectively demanded, if demanded by three [persons] members for the time being entitled according to the Articles to vote or by one member or two members so entitled if he holds or they together hold not less than 15 per cent. of the issued share capital of the company [unless the Articles of the company require a demand by such number of such persons, not in any case exceeding five, as may be specified in the Articles], or by such other number of members so entitled as under the Articles have the right to demand a poll, so however that it shall not be necessary in any case for more than five members to make the demand.

### SECT. 70.—REGISTRATION AND COPIES OF SPECIAL RESOLUTIONS

#### [Clause 22.]

—(1) *A printed or typewritten copy of every special resolution shall, within fifteen days after the date of the passing thereof, be forwarded to the registrar of companies and recorded by him.*

[(1) A copy of every special and extraordinary resolution shall within fifteen days from the confirmation of the special resolution, or from the passing of the extraordinary resolution, as the case may be, be printed and forwarded to the registrar of companies, who shall record the same.]

(2) Where Articles have been registered, a copy of every special resolution for the time being in force shall be embodied in or annexed to every copy of the Articles issued after the confirmation of the resolution.

(3) Where Articles have not been registered, a printed or typewritten copy [a copy] of every special resolution shall be forwarded [in print] to any member at his request, on payment of 1s. or such less sum as the company may direct.

(4) If a company makes default in [printing or] forwarding a copy of a special [or extraordinary] resolution to the registrar it shall be liable to a fine not exceeding £2 for every day during which the default continues.



(5) If a company makes default in embodying in or annexing to a copy of its Articles or in forwarding [in print] to a member when required by this section a copy of a special resolution, it shall be liable to a fine not exceeding £1 for each copy in respect of which default is made.

(6) Every director [and manager] manager, secretary or other officer and every liquidator of a company who knowingly and wilfully authorises or permits any default by the company in complying with the requirements of this section shall be liable to the like penalty as is imposed by this section on the company for that default.

(7) This section shall have effect as if references therein to a special resolution included references to every resolution or agreement of any of the following classes:—

(i) Extraordinary resolutions;

(ii) Resolutions which have been agreed to by all the members of a company, but which, if not so agreed to, would not have been effective for their purpose unless (as the case may be) they had been passed as special resolutions or as extraordinary resolutions;

(iii) Resolutions or agreements which have been agreed to by all the members of some class of shareholders but which, if not so agreed to, would not have been effective for their purpose unless they had been passed by some particular majority or otherwise in some particular manner, and all resolutions or agreements which effectively bind all the members of any class of shareholders though not agreed to by all those members;

(iv) Resolutions requiring a company to be wound up voluntarily, passed under paragraph (1) of sect. 182 of this Act.

#### SECT. 81.—SPECIFIC REQUIREMENTS AS TO PARTICULARS OF PROSPECTUS.

[Clauses 28 and 29 (1).]

—(1) Every prospectus issued by or on behalf of a company, or by or on behalf of any person who is or has been engaged or interested in the formation of the company, must state—

(a) The contents of the memorandum, with the names, descriptions, and addresses of the signatories, and the number of shares subscribed for by them respectively; and the number of founders or management or deferred shares, if any, and the nature and extent of the interest of the holders in the property and profits of the company; and

(b) The number of shares, if any, fixed by the Articles as the qualification of a director, and any provision in the Articles as to the remuneration of the directors; and

(c) The names, descriptions, and addresses of the directors or proposed directors; and

(cc) Where shares are offered to the public for subscription the minimum amount which, in the opinion of the directors, must be raised by the issue of those shares in order to provide for each of the following matters:—

(i) The purchase price of any property purchased or to be purchased which is to be defrayed out of the proceeds of the issue;

(ii) Any preliminary expenses payable by the company, and any commission so payable to any person in consideration of his agreeing to subscribe for, or of his procuring or agreeing to procure subscriptions for, any shares in the company;

(iii) Working capital; and

(d) [The minimum subscription on which the directors may proceed to allotment, and] the amount payable

on application and allotment on each share; and in the case of a second or subsequent offer of shares, the amount offered for subscription on each previous allotment made within the two preceding years, and the amount actually allotted, and the amount, if any, paid on the shares so allotted; and

(e) The number and amount of shares and debentures which within the two preceding years have been issued, or agreed to be issued, as fully or partly paid up otherwise than in cash, and in the latter case the extent to which they are so paid up, and in either case the consideration for which those shares or debentures have been issued or are proposed or intended to be issued; and

(m) Full particulars of the nature and extent of the interest (if any) of every director in the promotion of, or in the property proposed to be acquired by, the company, or, where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company; and

(n) [where the company is a company having shares of more than one class] if the prospectus invites the public to subscribe for shares in the company and the share capital of the company is divided into different classes of shares, the right of voting at meetings of the company conferred by, and the rights in respect of capital and dividends attached to, the several classes of shares respectively;

(o) The rates of the dividends, if any, paid by the company in respect of each class of shares in the company in respect of each of the three financial years immediately preceding the issue of the prospectus, and particulars of the cases in which no dividends have been paid in respect of any class of shares in respect of any of those years, and if no accounts have been made up in respect of any part of the period of three years ending on a date three months before the issue of the prospectus, a statement of that fact;

(p) If the proceeds, or any part of the proceeds, of the issue of the shares or debentures are or is to be applied directly or indirectly in the purchase of any business, a report by the auditors of the purchasing company or by accountants specially appointed for the purpose by the purchasing company or by the auditors of the business it is proposed to purchase upon the profits of the business in respect of each of the three financial years immediately preceding the issue of the prospectus:

Provided that, in the case of a company which has been carrying on business, or of a business which has been carried on, for less than three years the prospectus shall state how long the business of the company, or the business to be acquired, as the case may be, has been carried on, and where the accounts of any such company or business have only been made up in respect of two years or one year, paragraphs (o) and (p) of this sub-section shall have effect as if references to two years or one year, as the case may be, were substituted for references to three years.

(6) In the event of non-compliance with any of the requirements of this section, a director or other person responsible for the prospectus shall not incur any liability by reason of the non-compliance, if he proves that—

- (a) As regards any matter not disclosed, he was not cognizant thereof; or
- (b) The non-compliance arose from an honest mistake of fact on his part;

or, if the non-compliance was in respect of matters which in the opinion of the Court dealing with the case were immaterial, or was otherwise such as ought, in the opinion of that Court, having regard to all the circumstances of the case, reasonably to be excused:

#### SECT. 85.—RESTRICTION AS TO ALLOTMENT.

[Clause 29 (2).]

—(1) No allotment shall be made of any share capital of a company offered to the public for subscription unless the amount stated in the prospectus as the minimum amount which, in the opinion of the directors, must be raised by the issue of share capital in order to provide for the matters specified in paragraph (cc) of sub-sect. (1) of sect. 81 of this Act has been subscribed, and the sum payable on application for the amount so stated has been paid to and received by the company.

For the purposes of this sub-section a sum shall be deemed to have been paid to and received by the company if a cheque for that sum has been received in good faith by the company and the directors of the company have no reason for suspecting that the cheque will not be paid.

(2) The amount so stated in the prospectus shall be reckoned exclusively of any amount payable otherwise than in cash and is in this Act referred to as "the minimum subscription."

[(1) No allotment shall be made of any share capital of a company offered to the public for subscription, unless the following conditions have been complied with, namely:—

- (a) The amount (if any) fixed by the Memorandum or Articles and named in the prospectus as the minimum subscription upon which the directors may proceed to allotment; or
- (b) If no amount is so fixed and named, then the whole amount of the share capital so offered for subscription,

has been subscribed, and the sum payable on application for the amount so fixed and named, or for the whole amount offered for subscription, has been paid to and received by the company.

(2) The amount so fixed and named and the whole amount aforesaid shall be reckoned exclusively of any amount payable otherwise than in cash, and is in this Act referred to as the minimum subscription.]

[(7) In the case of the first allotment of share capital payable in cash of a company which does not issue any invitation to the public to subscribe for its shares, no allotment shall be made unless the minimum subscription (that is to say):—

- (a) the amount (if any) fixed by the Memorandum or Articles and named in the statement in lieu of prospectus as the minimum subscription upon which the directors may proceed to allotment; or
- (b) if no amount is so fixed and named, then the whole amount of the share capital other than that issued or agreed to be issued as fully or partly paid up otherwise than in cash;

has been subscribed and an amount not less than 5 per cent. of the nominal amount of each share payable in cash has been paid to and received by the company.

This sub-section shall not apply to a private company or to a company which has allotted any shares or debentures before July 1st, 1908.]

#### SECT. 92.—LIMITATION OF TIME FOR ISSUE OF CERTIFICATES. [Clause 36.]

—(1) Every company shall, within two months after the allotment of any of its shares, debentures, or debenture stock, [and within two months after the registration of the transfer of any such shares, debentures, or debenture stock,] and within two months after the date on which a transfer of any such shares, debentures or debenture stock (being a transfer duly stamped and otherwise valid, but not including such a transfer as the company is for any reason entitled to refuse to register and does not register) is lodged with the company, complete and have ready for delivery the certificates of all shares, the debentures, and the certificates of all debenture stock allotted or transferred, unless the conditions of issue of the shares, debentures, or debenture stock otherwise provide.

(1a) If a company refuses to register a transfer of any shares, debentures or debenture stock, the company shall, within two months after the date on which the transfer was lodged with the company, send to the transferee notice of the refusal.

(2) If default is made in complying with the requirements of this section, the company, and every director, manager, secretary and other officer of the company who is knowingly a party to the default, shall be liable to a fine not exceeding £5 for every day during which the default continues.

(3) If any company on whom a notice has been served requiring the company to make good any default in complying with the provisions of sub-sect. (1) of this section fails to make good the default within ten days after the service of the notice, the Court may, on the application of the person entitled to have the certificates or the debentures delivered to him, make an order directing the company and any officer of the company to make good the default within such time as may be specified in the order, and any such order may provide that all costs of and incidental to the application shall be borne by the company or by any officer of the company responsible for the default.

#### SECT. 95.—FILING OF ACCOUNTS OF RECEIVERS AND MANAGERS. [Clause 38.]

—(1) Every receiver or manager of the property of a company who has been appointed under the powers contained in any instrument [and who has taken possession], shall, [once in every half year while he remains in possession, and also on ceasing to act] within one month or such longer period as the registrar of companies may allow after the expiration of the period of six months from the date of his appointment and of every subsequent period of six months and within one month after he ceases to act as receiver or manager, file with the registrar of companies an abstract in the prescribed form [of] showing his receipts and his payments during that period of six months, or, where he ceases to act as aforesaid, during the period from the end of the period to which the last preceding abstract related up to the date of his so ceasing [the period to which the abstract relates] and the aggregate amount of his receipts and of his payments during all preceding periods since his appointment and shall also on ceasing to act as receiver or manager file with the registrar notice to that effect, and the registrar shall enter the notice in the register of mortgages and charges.

(2) Every receiver or manager who makes default in complying with the provisions of this section shall be liable to a fine not exceeding [£50] £5 for every day during which the default continues.



## SECT. 96.—RECTIFICATION OF REGISTER OF MORTGAGES.

## [Schedule II.]

[A judge of the High Court] *The Court* on being satisfied that the omission to register a mortgage or charge within the time hereinbefore required, or that the omission or misstatement of any particular with respect to any such mortgage or charge, or in a memorandum of satisfaction, was accidental, or due to inadvertence or to some other sufficient cause, or is not of a nature to prejudice the position of creditors or shareholders of the company, or that on other grounds it is just and equitable to grant relief, may, on the application of the company or any person interested, and on such terms and conditions as seem to [the judge] *the Court* just and expedient, order that the time for registration be extended, or, as the case may be, that the omission or misstatement be rectified.

## S. 100.—COMPANY'S REGISTER OF MORTGAGES.

## [Schedule II.]

—(1) Every limited company shall keep at the registered office of the company a register of mortgages and enter therein all mortgages and charges specifically affecting property of the company and all floating charges on the undertaking or any property of the company, giving in each case a short description of the property mortgaged or charged, the amount of the mortgage or charge, and (except in the case of securities to bearer) the names of the mortgagees or persons entitled thereto.

(2) If any director, manager, or other officer of the company knowingly and wilfully authorises or permits the omission of any entry required to be made in pursuance of this section, he shall be liable to a fine not exceeding £50.

## SECT. 185.—NOTICE OF RESOLUTION TO WIND-UP VOLUNTARILY.

## [Clause 57.]

(1) When a company has passed a resolution requiring the company to be wound up voluntarily or resolved by special or extraordinary resolution to wind up voluntarily, it shall within seven days after the passing of the resolution give notice of the resolution by advertisement in the *Gazette*.

(2) If a company makes default in complying with the provisions of this section, the company and every liquidator of the company and every director, manager, secretary or other officer of the company who knowingly and wilfully authorises or permits the default shall be liable to a fine of £5 in respect of every day on which the default continues.

## SECT. 185.—CONSEQUENCES OF VOLUNTARY WINDING-UP.

## [Schedule II.]

—The following consequences shall ensue on the voluntary winding-up of a company:—

- (viii) If from any cause whatever there is no liquidator acting, the Court may [on the application of a contributory,] appoint a liquidator:

## SECT. 195.—FINAL MEETING AND DISSOLUTION.

## [Clause 59.]

—(1) In the case of every voluntary winding-up, as soon as the affairs of the company are fully wound up, the liquidator shall make up an account of the winding-up, showing how the winding-up has been conducted and the property of the company has been disposed of; and thereupon shall call a general meeting of the company for the purpose of laying before it the account, and giving any explanation thereof.

(2) The meeting shall be called by advertisement in the *Gazette*, specifying the time, place, and object thereof, and published one month at least before the meeting.

(3) Within one week after the meeting, the liquidator shall send to the registrar of companies a copy of the account, and shall make a return to him [the registrar of companies] of the holding of the meeting, and of its date, and if the copy is not sent or the return is not made in accordance with this sub-section the liquidator [and in default of so doing] shall be liable to a fine not exceeding five pounds for every day during which the default continues.

If a quorum is not present at the meeting, the liquidator shall, in lieu of the return hereinbefore mentioned, make a return that the meeting was duly summoned, and that no quorum was present thereat, and upon such a return being made the provisions of this sub-section as to the making of the return shall be deemed to have been complied with.

(4) The registrar, on receiving [the return] the account and either of the returns hereinbefore mentioned shall forthwith register [it] them, and on the expiration of three months from the registration of the return, the company shall be deemed to be dissolved:

Provided that the Court may, on the application of the liquidator or of any other person who appears to the Court to be interested, make an order deferring the date at which the dissolution of the company is to take effect for such time as the Court thinks fit.

## SECT. 209.—PREFERENTIAL PAYMENTS.

## [Schedule II.]

—(1) In a winding up there shall be paid in priority to all other debts—

- (a) All parochial or other local rates due from the company at the date hereinafter mentioned, and having become due and payable within twelve months next before that date, and all assessed taxes, land tax, property or income tax assessed on the company up to April 5th next before that date, and not exceeding in the whole one year's assessment.
- (b) All wages or salary of any clerk or servant in respect of services rendered to the company during four months before the said date, not exceeding £50; and
- (c) All wages of any workman or labourer not exceeding £25, whether payable for time or for piece work, in respect of services rendered to the company during two months before the said date: Provided that where any labourer in husbandry has entered into a contract for the payment of a portion of his wages in a lump sum at the end of the year of hiring, he shall have priority in respect of the whole of such sum, or a part thereof, as the Court may decide to be due under the contract, proportionate to the time of service up to the said date; and
- (d) Unless the company is being wound up voluntarily merely for the purposes of reconstruction or of amalgamation with another company, all amounts (not exceeding in any individual case £100) due in respect of compensation under the Workmen's Compensation Act, 1906, the liability wherefor accrued before the said date, subject nevertheless to the provisions of sect. 5 of that Act.

(1a) Where payments on account of wages or salaries have been made to any clerks, servants, workmen or labourers in the employment of a company out of moneys advanced by some person for that purpose, that person shall in a winding-up have a right of priority in respect of the moneys advanced up to the amount in respect of which those clerks, servants, workmen or labourers would in the aggregate have been entitled in the winding-up to priority in respect of those wages or salaries.

## Correspondence.

### REGISTERED BOOK-KEEPERS.

To the Editors *Incorporated Accountants' Journal*.

SIRS,—I have pleasure in sending to you particulars of a new register which has been opened in connection with this Institute. It has for some time past been felt by the Council that the requirements should be considered of those who are eligible for membership of this Institute as regards examinations, but who are under the minimum age or for some other reason are unable to apply for full membership at the present time. It is therefore for this reason that the new bye-laws have been made. I may state that names are already coming in steadily for registration. Mr. A. N. McLean, of this address, has been appointed registrar.

As it occurs to me that this information may be of interest to your readers, it gives me pleasure to pass on the same to you for your kind consideration.

Yours truly,

H. J. ELDRIDGE,

Secretary,

The Institute of Book-keepers.

133, Moorgate, London, E.C.2.

### TAXATION AND TRADE.

To the Editors *Incorporated Accountants' Journal*.

SIRS,—In the February issue of the *Incorporated Accountants' Journal* appeared an excellent article under the above heading, but it contained a somewhat sweeping statement, which cannot be accepted without question. "It was affirmed," said the writer, "by business men appearing as witnesses before the Colwyn Committee on National Debt and Taxation, that income tax was a burden upon industry, inasmuch as it operated to impair competitive power by increasing costs and so forcing up selling prices. This contention is not accepted by economists as a body."

A reference to the Minutes of Evidence of Sir James Martin, F.S.A.A., which was given on behalf of the Association of British Chambers of Commerce, representing some 40,000 firms and persons, will show that he put forward the position of business men in regard to income tax and high taxation in several paragraphs which are in the nature of a sustained argument. I quote from the text as follows:—

"Taxation, in the opinion of some, adds to the cost of business through increased charges for salaries and diminishes the fund available for depreciation and wasting assets which business men have to provide for in excess of Inland Revenue allowances."

"In the view of others income tax does not technically enter into cost, but it affects prices, and this handicaps the exporter when it forces the selling price of the manufactured article, allowing for a reasonable profit, to a higher level than that of similar foreign goods."

"The measure of the handicap of taxation on foreign goods can be indicated by a comparison of the amount of taxation in this country per head, which exceeds that of any other country in the world."

"Where merchants or manufacturers are not in competition with foreign markets they may endeavour to pass the burden of taxation on to the consumer, but when there is competition from abroad a certain proportion, and possibly the whole, of the tax falls on

the merchant or manufacturer, as the price is then determined by the cost to the competitor abroad."

"In view of its additions to the cost of intermediate products, of transport and other charges incidental to cost of production and distribution, high taxation is cumulative in its effects."

"One of the most detrimental effects of high taxation in relation to foreign trade is the fact that the entry into such trade means taking a risk in order to secure a possible profit. This is considered so much less worth the while when it is recognised that whilst any loss on an enterprise falls on the trader, a large portion of the profit, if it accrues, is taken by the State."

I think a comparison of the views expressed by Sir James Martin on behalf of business men with the conclusions of the writer of the leading article will show that although they may approach the problem from different standpoints, they are mainly in agreement as to the effect of high taxation upon industry.

Yours, &c.,

"INTERESTED."

### CLAIM FOR MISREPRESENTATION.

#### Row v. Wareham Electric Supply Company, Limited, and Others.

Before Mr. Justice Rowlatt, in the King's Bench Division recently, an action was brought by Mr. William Thomas Row, of Grosvenor Road, Edmonton, against the Wareham Electric Supply Company, Limited, the Electricity Finances and Distribution Corporation, Limited, Edmund Eaton and Mrs. Lily Eaton, of Upper Church Road, Hollington, St. Leonards, Wilfred Burton, Walter Thompson, Emerton Claude Buik and J. Brigden, all of London, Sir C. B. Soame, of Coalbrookdale, Shropshire, and Mr. A. H. Edwards, the liquidator of the Wareham Electric Supply Company, Limited, claiming damages in respect of certain investments he made in shares and debentures.

Mr. Willis, for the plaintiff, said the two defendant companies were in liquidation and did not appear. The other defendants were represented by Counsel. Plaintiff alleged that he was induced by fraudulent representations contained in a prospectus to pay £200 for shares and debentures in the Wareham Electric Supply Company. Plaintiff said the statements in the prospectus were untrue, to the knowledge of those who issued the prospectus, and he alleged that the people responsible for the prospectus were Colonel Eaton and his wife, Burton, and Mr. Thompson, a solicitor, of Crown Court, Cheapside. The other defendants, Sir C. B. Soame, Buik and Brigden were made parties because they were directors, but no charge whatever was made against them. A charge of fraud in connection with the issue of the prospectus had been made against Mr. Edwards, but that charge had been dropped. He was, however, left with the record that he might give the Court an explanation of his conduct, but no relief was asked against him.

The Wareham Company was formed as a private company in 1920, with a capital of £5,000, of which £550 was paid up. Next year it was made a public company and in 1922 it went into voluntary liquidation. Subsequently Mr. Edwards, the liquidator, accepted an offer of £1,400 from persons on behalf of Colonel Eaton for the shares and property of the company, and he distributed the £1,400 amongst the old shareholders at the rate of 3s. 6d. in the £. Then he wiped his hands



of the matter and took no further interest in it. If he had wished to do what he had done he should have obtained a resolution of shareholders or the authority of some competent Court.

The winding-up of the company was stayed by a County Court Order. Later, new directors were appointed and the company's offices were removed to London, and a resolution having been passed to increase the Wareham Company's capital, a prospectus was issued through the Electricity Corporation, which had been registered, inviting applications for shares and debentures in the Wareham Company. The prospectus made statements about the prosperity of the company and said not a word about the winding-up. Plaintiff received a copy of the prospectus and was induced to invest £200 in shares and debentures. The company was now in compulsory liquidation and plaintiff had lost his money. He claimed damages from those responsible for the prospectus. Plaintiff gave evidence that he would not have parted with his money if he had known the Wareham Company had been in liquidation.

Mr. Burton, a solicitor's clerk, one of the defendants, said he was one of the directors of the Wareham Company and the Electricity Corporation. Colonel Eaton had a great deal to do with the drafting of the prospectus offering for sale shares and debentures in the Wareham Company. Witness thought the prospectus was quite honest and straight. He did not think it important to state in the prospectus that the Wareham Company had been in voluntary liquidation.

Asked where Colonel Eaton was, witness said he was "elsewhere."

Mr. Willis: He is undergoing four years penal servitude for fraud.

At the conclusion of the plaintiffs case Mr. Galbraith, K.C., submitted that there was no case whatever against Mr. Edwards.

Mr. Justice Rowlatt agreed and the action against Mr. Edwards was dismissed with costs.

The action against Mrs. Eaton, Sir C. B. Soame, Mr. Buik and Mr. Bridgen was also dismissed with costs.

Mr. Thomas on behalf of Colonel Eaton, Mr. Burton and Mr. Thompson, contended that there was no evidence of fraud. There was no representation in the prospectus that the company was in a prosperous condition or in a condition to pay dividends or interest.

No evidence was called for the defence.

Mr. Justice Rowlatt said in his view the prospectus was redolent of fraud on every point. When in 1923 the Wareham Company went into voluntary liquidation, an offer was received by Mr. Edwards, the liquidator, against whom nothing could be said, to buy all shares from the shareholders at a certain price. Mr. Edwards accepted the offer and the shares were taken in the form of blank transfers. An offer for the sale of shares in the Wareham Company was after put forward by the Electricity Corporation. The document in which that offer was made gave no hint whatever of the company's history. It was a case where silence was a fraud. The persons responsible for the document were Colonel Eaton, Mr. Burton and Mr. Thompson. The evidence against Mr. Thompson was not strong but it was strong enough to call for an answer and no answer was given.

A gentleman at the back of the Court rose and said "I am here to give evidence."

Mr. Justice Rowlatt: I am here giving judgment and you have not been called.

His Lordship gave judgment for plaintiff for £195 against Colonel Eaton, Mr. Burton and Mr. Thompson.

## Estate Accounts and Head Office Administration.

A LECTURE, delivered at the I.S.P. Conference held at Penang, by

MR. J. S. M. RENNIE, F.S.A.A., F.C.I.S.

The chair was occupied by Mr. J. W. CAMPBELL.

MR. RENNIE said: It has been due to a conversation with your very energetic and capable Chairman, Mr. J. W. Campbell, that I stand before you now in a sincere endeavour to give you a synopsis of the administration of a rubber plantation through the channel of a joint stock company.

I have reason to believe that throughout this magnificent industry the relations existing between the various component units, i.e., manager, agents, secretaries, board of directors and visiting agent, stand on a very much more harmonious and co-operative basis than they did in the earlier years of the industry, but, having been fortunate or unfortunate enough to have been secretary, auditor, agent and director, and also having tried my hand at planting at Port Dickson many years ago (and made a mess of it), I may say at once that one of the main ideas underlying this present lecture is that each of these component units shall work in complete harmony and sympathy, which can the better be assured when the *raison d'être* of the many returns and forms which managers and agents are called upon to put in to the board is clearly understood.

It is largely for this reason, gentlemen, that I do not propose to-day to weary you with an "exhibit" or "exhibits" of the various forms in use, nor do I propose to give you a lesson in book-keeping. You have probably had quite enough of forms and returns during the first ten days of this month, during which period I piously hope each of you has got his July report accounts well and truly despatched to his agents.

### COST RECORDING.

I think all of us will readily admit that the question of accounts in industry in general has during the past 30 years grown and become perhaps the greatest prime factor in the conduct of industry, and it is now agreed that without a well laid out system of cost recording it would not be possible effectively to carry on general manufacturing industry at home in competition with the world.

In no less a degree has accountancy, costing and statistical recording been, and still is, of the very prime importance in our industry of rubber planting.

### BEGINNINGS OF THE M.R.P.

I well remember when in 1902 I first came across a rubber plantation, Tan Chay Yan's, at Bukit Asahan, Malacca, and how, with great and justifiable pride, he showed me some of his "biscuits" made in a sort of frying pan; and again, with jubilation, he showed me a copy of Gow Wilson's first account sale of his rubber at 3s. 11½d. per lb. Having planted 2,800 acres since 1898 he wanted money. Chinese New Year was approaching, so naturally my first question was: "Ya, Towkay, tet'api brapa dia punya cost satu pun?" His reply naturally was: "Blum tau betul Tuan—tet'api Tuan boleh preksa contracts." I duly preksaed his contracts for tapping and weeding, and overhead charges were nil, and I gauged his cost at about 2s., a price which Fine Hard Para had not touched for several years. I returned to Singapore, wrote a report to a leading bank there, and asked for \$100,000 loan. The report and request were passed on to London office

and a cable reply received: "Loan granted up to \$75,000." That, gentlemen, was the beginning of what is now Malacca Rubber Plantations, Limited, and, second only to the initiative and energy of the Chinese Towkay, the late Tan Chay Yan, came the element of figures or accounts. That is the reason I mention it.

#### THE BIRTH OF RESTRICTION.

Since those days this element of accounts and statistical records has grown and become one of the very prime importance, and culminated in 1922, when figures, accounts and statistical records proved the fact that 400,000 tons per annum at 1s. 3d. would enable same to be produced at a small profit to the industry after paying for maintenance of untapped areas, whereas 500,000 tons at 7½d. would entail heavy losses to the industry and ultimate total depletion of capital resources. And thus came in restriction and pivotal price—accounts put it up to 1s. 9d.

There can be no doubt about it, gentlemen, it was practically wholly by reason of the fact that you managers and assistants (forgive me if I say to some extent coached by your agents and directors) were able to show over a considerable period of years:—

- (1) The capital cost per acre of mature rubber and the period occupied in creating it,
- (2) The output and cost per lb. of five to seven year rubber,
- (3) The output and cost per lb. of ten, &c., year rubber,
- (4) The average output and cost per lb. of some 2,000,000 acres,

that the authorities were ultimately convinced that control or restriction was necessary if this magnificent industry was to be saved to British possession.

If this has been so up to the present time, the same fact applies even with increased effect for the future. Most of us are hard at it at the moment in sincere and sometimes too exuberant efforts to show that our crop of, say, 600,000 lbs. has been obtained from 1,000 acres, and that we have a further 1,000 acres of the same stuff "resting." In such cases the Restriction Department might with advantage call for production of crop records for the said 1,000 acres being "rested."

#### THE "LIFE" OF TREES.

Then, further, the effective life of a rubber tree and the proper manner in which to amortize over a series of years its capital cost by annual charges to revenue account has hardly yet been touched, but, sure enough, the time is fast approaching when you managers will be called upon to give one further "report and statistics" as to the "life" of some of your areas. You know already that some of the old stuff is showing the effect of *anno domini*, and here again it is your field statistical records (accounts) which show it to you and enable appropriate measures to be taken.

One further very important point in connection with which your accounts and statistics of capital costs, yields, revenue costs, periods of tapping, &c., will be brought into use in a vital and very crucial matter, will be that of amalgamation, if and when this industry is organised on a stable, lasting basis.

#### AMALGAMATION.

Amalgamation is rife in all the important big industries of the world, and when properly engineered is of benefit to all parties, even including the poor consumer, inasmuch as prices can be stabilised over a series of years and every one employed in the industry can be assured of a permanent job, and no periodic sudden axing. I will not go into the subject of control by amalgamation now, but merely wish to point

out that when it does come (as it will) the statistical records you managers all keep will largely form the basis on which any such amalgamation could with fairness to all be based. So please keep the white ants away from your field crop record book and your cheque rolls and report accounts, as they may all yet be required to gauge the relative value of your estate.

Having said the foregoing as a preliminary, I should like, before proceeding to speak as regards the relations of manager, agents and directors, to record my admiration, as an accountant, for the manner in which you managers and assistants have grappled with the matter of accounts.

I know what I had to go through in my earlier days when learning the intricacies of debit and credit, and knowing as I do the source from which most of rubber estate managers came, almost direct from public schools, the Universities, the Army and Navy, I think it really wonderful the manner in which, practically without exception, you have gained a real sound working knowledge of accountancy, and I think directors are to be congratulated on the very great interest which all of you have evinced in the accounts and statistics of your estates.

#### ORGANISATION.

Before making a cursory review of the various accounts, returns and forms in use in connection with the administration of a rubber estate, I would like to say a word on the organisation of a rubber plantation company.

This organisation, in so far as it applies to companies as distinct from proprietary planters, consists of directors, secretaries, agents and estate manager. Possibly many of us will wish to say that the sequence in which I put these units is wrong, and that the manager should come first and not last.

Gentlemen, we will not discuss that now. We each of us have our own ideas, and are welcome to them. From what I myself have to go through at times from the other three, I could sometimes wish to put the agents on a pinnacle, and all the rest—somewhere else.

#### THE DIRECTORS.

The shareholder only comes on the scene once a year, and even then, if he dares to argue as regards costs or dividends, he is quite likely met with a *non possumus*, so that the directors are in supreme operative control. This board of directors, in London or Singapore, sit in conclave once a fortnight or once a month, and are the final arbiter in the matter of the policy and operations to be embarked upon at the estate, and in giving their decisions they are, of course, largely if not wholly guided by the reports, accounts and statistics which will come to their hands from the estate manager, the visiting agent and the agents. As regards these boards of directors, it may be remarked that in the earlier days of this industry they were largely drawn from the usual commercial and financial circles of the London market. Many of them hardly knew where "the Malay," as they called it, was, and they amused our ears with such delightful place names as "Kewala Lumpore" and "Aeyer Paneas," but they were the men who put their hands in their pockets, and had the foresight and pluck to finance this industry through good times and bad, and they were not the witless fools that I fear some of the planters out East were at times rather prone to think them.

As the industry grew and increased in age the time came when some of those gentlemen who had borne the heat of the day out here in planting and V.A.-ing, arrived at the retirement age, and thus it arises that on many boards now sitting at Home we find a good sprinkling of the cream of the planting profession. Gentlemen, this is a move in the right direction, and I happen to know that these gentlemen of



practical experience are very welcome among their *confrères* of the London financial market, and the fact must be particularly welcome to you managers and assistants, inasmuch as you now have some sitting in the seats of the mighty who understand from practical experience what you have to go through, and that if you get a particularly bad dose of fever, a trip to Brastagi or Bukit Fraser will not only be good for you, but also in the estate's best interest, and at the company's expense.

#### THE AGENTS.

The decisions of the board of directors as arrived at at their meetings are noted by the secretaries, who convey them to the agents in the East, and the latter deal with the matter with the estate manager. Some of you may be inclined to think that the system is unduly cumbersome, and that the board of directors could with advantage deal direct with the manager, but, gentlemen, I can assure you that there is reason in this so-called madness. I myself, or my firm, am only a very small item in this organisation, but on the whole it will be found that the firm of agents are a body or entity of some assured continuity with considerable staffs which can always ensure attention to the estate's requirements, whereas many estates have only the one man in charge as manager who is subject to the usual human ills of either sickness, or, happily very rarely, incompetence, and in such cases it is vital that some entity of continuity should be near at hand to deal with the situation. Apart from this it will also be found that the average firm of agents as now constituted include on their staff men of capacity, both as regards accounts and returns, and they can at times be of real assistance to the manager. As a further and final reason for their existence and position, one must not lose sight of the fact that in very many cases the agency firms have been the channel through which the estate has initially been floated as a company, and, gentlemen, if you knew the sweat and worry involved in that you would not begrudge them their so-called sinecure of Eastern agents.

#### THE VISITING AGENT.

Well, gentlemen, having said that as regards the directors, secretaries and agents, we come to a very important unit in our organisation, and that is the visiting agent, who is a gentleman of long and varied experience, and who is a sort of "watch-dog" over the whole lot, and, in conjunction with the manager, is largely responsible for the scale of operations to be embarked upon during any one year, as foreshadowed in the annual estimates.

The secretaries at head office in London, or Singapore or elsewhere, are responsible for keeping the main set of accounts recording the operations as a whole of the company. In their ledgers will be found share capital account, cost of estate or property account, and rubber sales account, which latter records the net proceeds of sales of the rubber you ship, as and when sold and proceeds have been received. Beyond one or two other account headings recording London office expenditure, the main account in their ledger is styled "estate current account," and to the debit of same are charged all the remittances that head office make available to the estate manager. The estate manager receives these remittances through the Eastern agents and banks them, and passes the amount to the credit of head office account in his estate ledger, which is incorporated in the estate balance-sheet which is set out monthly on the face of the estate report account. These funds are disbursed by the manager, and debited by him to estate expenditure account, which is analysed under some appropriate 60 or so headings, the total of this estate

expenditure is taken up by the London books once a year, when final accounts are sent to head office, and is credited to estate expenditure account in London ledger, and thus, after that is done, the balance shown at debit of estate current account in London books will agree with the balance shown at credit of head office account in the estate balance-sheet. Some firms of secretaries are in the habit of taking up estate expenditure into their books each month as and when the report accounts come to their hands, but in my own view, as sometimes corrections have to be made afterwards, I prefer to take up this expenditure once at the end of a year, when the accounts are finally closed.

Except in the case of fresh issues of capital, or amalgamations of two or more companies, and as already mentioned—in the matter of rubber sales, the books of account in the London office need hardly be touched at all during any one year until such time as the final accounts for the year are received in London from the estate via the Eastern agents. This does not mean, of course, that the accounts department of a rubber company secretarial group is idle during the year, for on the other hand it is busily engaged in checking the monthly report accounts as and when they come to hand from the East, checking the progress expenditure with the proportionate amount of the estimates, and testing the quantity of pounds of rubber your coolies are bringing in per coolie day.

#### ESTATE ACCOUNTS.

The books of account as kept at the estate, and the concomitant books of record are, from the practical point of view, the more important of the two. The main source of the items here, of course, is the monthly remittance of funds which the manager receives through the agents from the head office, which the manager banks to the credit of head office account as already mentioned, and pays out as per the records in his cash book.

This cash book, although it records all these payments which the manager makes on estate account, does not, however, form the basis on which the detail expenditure statement, generally known as the monthly report account, is built up. This is for the reason that most of the payments the manager makes are in respect of bulk purchases of goods, payments on account to contractors, or check roll, and the majority of such payments fall to be debited to ledger accounts, known as personal accounts, which latter accounts have via the journal been credited with the total of the bill or check roll. It is thus through the journal that most of the specific items to debit of "expenditure account" arise.

Check roll, contractors' accounts, and suppliers' bills, should be got ready as soon as possible after the end of any one month, and are then passed through the journal, to the credit of the personal account, and to the debit of the various expenditure account headings, or to stock or suspense accounts.

Having made these few remarks as regards the functions of the books of account at both ends, I propose, in conclusion, to make a cursory review of the forms and statements for the production of which the normal board of directors call. I will deal with them in sequence as they arise during any financial year of a company's working.

#### ANNUAL ESTIMATES.

The first, and one of the most vital, is the annual estimates. This is a statement under the same sixty headings as the monthly report account, and is made up by the manager for the purpose of showing to directors the likely and possible operations during the coming year, including of course an estimate of his crop and the fields he intends to harvest it from, and the estimated cost of getting it, under each heading.

It will also show in detail the estimated cost of maintenance of any immature areas, and the scope and estimated progress cost of any new clearings he suggests should be opened up, or any further equipment to be added to the estate. These annual estimates should as a rule be put in hand by the manager at least two months prior to the close of the preceding financial year to which they relate, so that he can have time to submit them to the visiting agent, who should pass his comments on the contents as regards scope and costs, and either approve them or suggest amendments. Together with the visiting agent's comments they are then passed to the agent, who will retain a copy in his office for reference during the year, and pass them on to the board with such comments as he may have occasion to make. The agent should be in a position to post them to London at least a month before the commencement of the year to which they relate. This gives the board time and opportunity to scrutinise them, and in such scrutiny the board, who are the keepers of the purse and are acquainted with the inner finances of the company, to which neither the manager or visiting agent is necessarily privy, will pay special attention to the question of capital expenditure, whether in the nature of new clearings or new equipment, and no matter how necessary or desirable a new factory, or bungalow, or coolie lines, or a new clearing (to round off the boundaries) may seem to the manager or visiting agent, the decision of these men in London should be received with confidence as being a measure of prudence having regard to the finances of the particular company. It is in my view largely owing to the fact that this industry has (in the view of some) been encumbered by the galaxy of official units, directors, secretaries, agents, visiting agents, and managers, that the industry has weathered the storms to which it has in its somewhat short life been subjected. Each and all have served their purpose. The manager, without question, is the dominating and vital pivot of the whole lot, but still I am of opinion that there are many of the best managers who will readily admit that on many occasions the calm detached view of the directors in London has been one full of prudence and sound common sense.

Well, gentlemen, these annual estimates form the family bible of the whole year's operations, and once having been passed and approved they constitute a continual source of reference by all the various units of the organisation throughout the year, and if the manager finds it necessary to exceed any specific item of expenditure during the year, it is usual and advisable for him to draw attention to it and explain it in the monthly report account under the heading of "Remarks" in the month in which the expenditure is exceeding the amount appropriated in the estimates.

#### MONTHLY REPORT ACCOUNTS.

These estimates having been passed to London and approved or amended in detail, the manager then proceeds to record his detail expenditure month by month during the year in what are generally known as monthly report accounts. These report accounts show expenditure under detail headings the same as the estimates have shown. The three main headings of expenditure are shown under the main headings of (1) General Charges; (2) Revenue Account or Mature Areas; (3) Capital Account, including immature area maintenance, new clearings and equipment. These monthly report accounts should be despatched from the estate to the agents before the 10th of the month following that to which they relate, and the agents, after having checked and scrutinised them, will retain a copy in their office and forward one on to the London office.

This report account does not call for much comment except under the heading of General Charges. The direct expenditure on tapping and factory costs and cultivation of the mature area is, of course, debited direct from the journal analysis of check roll, &c., to the appropriate headings of revenue expenditure in the report account, and in the case of a wholly mature estate the general charges follow the same course, and *per contra* in the case of a development proposition where there are no mature areas such general charges are wholly debited to capital account. But in the case of a company possessing an estate comprising both mature and immature areas these general charges have to be apportioned, and various methods are used in calculating such apportionment. I myself have always practised, and still recommend, that this apportionment be based on the relative areas "mature" and "immature," and as it is found in practice that an immature area calls for less supervision per unit than a mature area, the scheme has been adopted in many cases whereby in apportioning general charges based on acreages a mature acre is deemed to be one unit, and an immature acre to be half a unit.

This monthly report account, in addition to accounts of expenditure, includes several other statistical statements, such as acreages, labour, rainfall, crops and shipments, and a statement of agent's account current and an estate balance-sheet, and concludes with a space for "Manager's Remarks," which should be taken advantage of by managers as it forms a most useful running commentary on the operations at the estate.

It may be, and is frequently, asked, why all this data and statements should be repeated month by month throughout the year, but I can assure you, gentlemen, that for the time and energy expended it is found of very great value and assistance in the London office, and forms one more insurance that nothing shall be overlooked.

In recording in the ledger the details of estate expenditure, I always recommend that in the cash book and journal there shall be a separate column in which shall be aggregated all the many detail items appertaining to estate expenditure, and that the total of same shall, at the end of any one month, be posted in total to the debit of "Estate Expenditure" account in the ledger, and that a subsidiary ledger styled "Report Ledger" shall be kept in which the specific many items are posted in detail under the sundry sixty odd headings as per the report account. It is then from this subsidiary ledger that your estate clerk will write up the report account. "Report Account" in the main ledger then becomes what is known as a "control" account, and the amount standing at debit of it at the end of any one month should agree with the trial balance totals of all the account headings in the subsidiary ledger above referred to. Of course, the analysis of report expenditure can be done from the cash book and journal entries direct on to rough sheets of report account statements and then clean copied, and such clean copies if bound together in a binder can be treated as being the subsidiary ledger to report account in the main ledger.

This report account has the requisite columns for showing "cost per lb." for the month, and also to date, and as regards the maintenance of immature areas will show "cost per acre," and the same as regards the progress cost of any new clearings in hand. A monthly check is thus ready at hand for the manager, the agents and the directors, as regards the manner in which the costs both in gross and per unit are progressing as compared with the estimates.

Accompanying this monthly report account it is now usual to furnish a weeding statement, in which is shown the cost of



weeding per acre of the various fields comprising the estate, and this shows in appropriate columns the manner in which the weeding is done, whether by contract or by check roll labour, the periods of weeding, and the cost per "weeded acre" and per "planted acre," and if studied each month by the board gives a very useful guide as to the condition of this important matter at the estate.

#### "C. S. P. AND EXPORT."

A further monthly return which it has now become customary to furnish to the agents and board is that of the "C. S. P. and Export Allowance" statement, which shows in an appropriate manner how the estate stands as regards its stocks and credit balance on export allowance. With a large number of estates this statement is now beginning to show a peculiar state of affairs which is likely to have a reflex action on periodic market views as regards the price of rubber, the reason being that in the case of many estates, now that we are down to 60 per cent. restriction, there is being accumulated a large stock in excess of export rights, with the inevitable result that a manager is in a position to ship the whole of his quarter's allowance in the first month of any quarter, and it follows that in the succeeding two months he will be shipping nothing at all. You will see the result, I think, gentlemen, in this present month of August, in which many of us know that many estates are shipping their whole August/October allowance, and shipments for the month are likely to be very large, and thus September arrivals in London will be big, stocks will show an increase, and the price will fall from sentiment. Then in October/November the reverse will happen, and arrivals will be smaller. Stocks eaten into in London, with a co-relative sentimental rise in prices. This, gentlemen, does not arise in the scope of this paper, but it does arise by reason of accounts, returns, and statements put in by the manager of estates, and it forms a matter which in my view will become one of some prominence if the market is to be so easily affected by statistical positions. It may become advisable for the P.A.M. or the B.G.A. to inquire into it and make the position plain to the market, unless boards of directors see fit to give instructions that shipments are to be made in pursuance of regular monthly quota, and then we are up against the fact that the manager wants the storage space.

After the monthly report account and other monthly returns comes the manager's quarterly progress report, which under suitable headings shows details of progress made during the quarter as regards the specific nature of the operations in being at the estate. This recapitulates a good deal of what has been shown in the monthly report accounts, but goes a little more fully into the question of current costs, labour force, and output statistics per field.

About the same time as the manager's quarterly progress report, the visiting agent will have made his quarterly or half-yearly report, and this sets out in an independent unbiassed manner the course of operations at the estate since his preceding visit, and, gentlemen, I think we may say without any back scratching that the visiting agents of the rubber industry are a body of men, like Caesar's wife, "above suspicion."

The last and most useful of the reports put in by the manager is his annual report. That is a very comprehensive and useful document, and I know it is very greatly looked forward to by the secretary and board in London. They feel that when they have got that they have a complete *résumé* of the whole of the year's operations. The secretaries use it in closing the accounts as it includes the stocks left on the estate. The auditors use it, and the chairman uses it for

getting his annual speech written out by someone in the office—occasionally he writes it himself. The various reports go home to London and are incorporated in the London head-office books. When the books have been closed in accordance with the final returns received from the manager and from the annual report, the books are closed in London; then the report and accounts are drawn up and the annual general meeting is called.

## Bradford and District Society of Incorporated Accountants.

### Lecture and Dinner.

The President of the Society, Mr. Thomas Keens, read a paper on "Insolvency Practice" to the members of the Bradford and District Society of Incorporated Accountants, at the Midland Hotel, Bradford, on the evening of February 7th, 1928. Members of the Bradford Association of Chartered Accountants had been invited, together with the local members of the Law Society and of the Institute of Bankers, and the meeting was a crowded one with over 150 persons present.

The President treated the subject from the practical point of view of the Incorporated Accountant, his paper being most informative and exhaustive. For purposes of clarity the bankruptcy side of insolvency was dealt with, and much knowledge, both interesting and of practical value, not to be found in text books, was placed at the disposal of those present. The President of the Bradford and District Society, Mr. J. W. Reynolds, was in the chair.

The annual dinner of the Bradford and District Society of Incorporated Accountants was held at the Midland Hotel on the following evening, February 8th, 1928, with Mr. J. W. Reynolds in the chair. There were about 70 guests and Incorporated Accountants present, including, among others:—The Lord Mayor of Bradford (Alderman Michael Conway); Mr. Thomas Keens, F.S.A.A., President of the Society of Incorporated Accountants and Auditors; Professor J. H. Jones, Professor of Economics at Leeds University; Mr. Thomas E. Gardner, O.B.E., C.A., President of the Bradford Chartered Accountants' Students' Association; Mr. F. Ogden Whiteley, O.B.E., F.S.A.A., City Treasurer of Bradford; Mr. Thomas Boyce, M.A., B.Sc., Director of Education for Bradford; Mr. Richard Watson, Barrister-at-Law; Mr. Douglas Hamilton, President-elect of the Bradford Chamber of Commerce; Mr. Percy Toothill, F.S.A.A., Member of the Council of the Society, and President of the Sheffield and District Society; and Mr. J. R. W. Alexander, Parliamentary Secretary of the Society of Incorporated Accountants and Auditors.

Professor J. H. Jones, in proposing the toast of "The City and Trade of Bradford," said: If there was one theory more distrusted by accountants than another it was simplicity, because they believed that taxation should be impossible of understanding except to the qualified accountant. He regarded himself and his profession as members of the same family as accountants—the economists being the poor relations. Turning to the condition of the Bradford textile industry, which in recent times had been suffering great hardship, Professor Jones said there was no doubt the country was going through an industrial revolution which was not going to leave the wool and worsted industries unaffected. Engineers and chemists had come very much to the fore in recent years, and technological changes had taken place

which were of profound importance to great industries already established. They heard, too, of a decided movement of industry from the North to the South, and that this was a state of affairs which was no mere accident, but part of a general movement likely to continue for many years to come. Another revolution going on at present, and one with which accountants and economists were more closely concerned, was that of the control and organisation of industries, a movement signalised at present by the word "rationalisation." It was a word that could be made to mean many things, but it certainly promised to mean something of radical importance to the large industries of this country. He would not venture to suggest what particular phases of re-organisation should be undertaken by the leaders of the Bradford textile trade, but he did suggest that the advice which accountants could give in this matter was of the very first importance. Industry would have to make use of resources not hitherto available, and he believed the accountants of the country were the only people who could place those new resources at the disposal of industry. Accountants themselves could only do this as they recognised more and more that the training which was once regarded as sufficient for the young accountant was no longer sufficient; that an accountant must be much more than a hunter of fortune through the difficulties of others, and that he must be an adviser in a very real sense. He felt that just as accountants were able to render invaluable assistance to industry in the present need for control and re-organisation, so institutions such as Leeds University were in a position to render great service to accountancy if the profession was prepared to receive it, and it was in that direction that he saw great possibilities of co-operation between the accountant and the economist. (Applause.)

The LORD MAYOR OF BRADFORD (Alderman Michael Conway) in responding to the toast, said Bradford industries had lately been going through difficult times, but Bradford people did not like to cry "stinking fish," and he believed they had a determination which would get them through this difficult time, as it had got them through other difficult times in the past. (Hear, hear.) When Bradford was in great trouble a good many years ago, because of new American tariffs against her goods, the city looked around for new possibilities, and at the same time took the long view and established the Bradford Technical College for the training of young men in the science of the business of the district. Inside five years Bradford was beating America in her own markets. To-day there was the task of getting out of the great slump, but they must not in this time of anxiety overlook that same long view which, in further education and training, would make prosperity when it returned, more secure. He had no doubt that the grit of Bradford people and their inherited skill would count for something against the mass of new competition which had arisen from foreign manufactures and by overseas people manufacturing more for themselves. It was for the future they had to look and plan, and that involved the close co-operation of all concerned in industry and the organisation of industry. The best definition of economy which he had ever heard was "wise spending." He regarded education and training of the young in the same light as afforestation—both were very essential, but the results were slower than some people seemed to expect. He had once heard a shrewd old Yorkshire business man refer to accountants as "business doctors," and he thought that was a very good definition of them. (Hear, hear.) Accountancy had come to the forefront with a gallop in recent times and was certainly in a position to play a greater part than ever before in the welfare of British industry.

Mr. DOUGLAS HAMILTON, President-elect of the Bradford Chamber of Commerce, also responded to the toast, and said he was glad to have the opportunity of acknowledging the great assistance given to the Chamber in many ways by its accountants' section, which dealt with many of the more intricate problems of trade finance which the average business man had neither the time nor the ability to handle satisfactorily. Referring to the subject of taxation and the prevalent complaint that it had become a serious burden, Mr. Hamilton said he wondered sometimes if business men were quite so patriotic as were the millions of young men who rallied to the country's need some twelve or fourteen years ago, ready to sacrifice everything. Heavy taxation obviously was the result of a great war and he thought it would be more gracious and more patriotic if business people grumbled less about it and paid their whack like Englishmen. There were two kinds of patriotism—the physical and the fiscal. The men who lined up voluntarily for war service showed physical patriotism; now the business and other people of the country were required to show fiscal patriotism. Mr. Hamilton said he made special mention of this matter because tax evasion was far too common nowadays and ought to make business men ashamed. Those escaping taxation simply threw the burden upon those who were willing to pay their share towards the cost of the war. Personally, he would refrain from taking any action which would tend to prevent the Chancellor of the Exchequer from stopping up every possible loophole, as was intended by a certain clause in the last Finance Act. Complaints were often made that investigation by the Revenue Authorities was far too close. Honest business men need fear no investigation. Under all the circumstances business people ought to consider it a privilege to pay income tax. He hoped they would look at the matter from a more patriotic standpoint and refrain, as far as possible, from destructive criticism. If business men paid more attention to the need for economy on the part of governmental and other authorities, and less to complaining of high taxation, they would be better advised. (Applause.)

Mr. THOMAS BOYCE, M.A., B.Sc., Director of Education for Bradford, in proposing the toast of "The Society of Incorporated Accountants and Auditors," observed that the Society during the past 43 years had done a tremendous amount of good work, and particularly in the direction of defining the scope of accountancy which had been widened enormously in recent years. Accountants to-day understood figures, but what was far more important, they understood how to interpret them. It was sometimes said that anything could be got out of figures, but the fact remained that only one truth could be got from them and it was the function of the accountant to find that truth. In increasing the scope of their work, accountants had added greatly to the usefulness and value of their profession and to the esteem in which it was held. Mr. Boyce said he was sorry to think, however, that even to-day the profession was not a strictly closed one. It was unfortunate that, although the Chartered and the Incorporated Accountant unquestionably had the esteem and trust of the business community, the fact remained that there was nothing to prevent anybody who could count from calling himself an accountant. He had noticed some striking remarks on that matter by the Lord Chief Justice, and he hoped it would not be long before such a state of affairs was remedied. In recent years the profession had established itself in one important regard, for he believed in no fewer than 70 Municipal Corporation Acts, it was enacted that the public accounts must be audited by Chartered or Incorporated Accountants. He noticed that the scheme provided by the Society for the education of its students was a very broad



general cultural scheme, and unquestionably the person who went through it would have a wide view not only of accountancy itself but of his profession in its various social applications. He was glad to know that economics figured in the programme, because a study of statistical methods must be very helpful. A very essential thing was to be able to arrive at figures and interpret them perfectly honestly. Mr. Boyce congratulated the Society of Incorporated Accountants on being sufficiently enlightened, some years ago, to open its professional doors to women, and added that Bradford was proud of the fact that the first lady accountant in the country to qualify by examination was Miss Claridge, an Incorporated Accountant of that city, and the daughter of one of the Society's Past Presidents. They were all delighted to see both Mr. and Miss Claridge among them that evening.

Mr. THOMAS KEENS, F.S.A.A. (the President of the Society), replying to the toast, said he wished at the outset to thank Mr. Reynolds, President of the Bradford District Society, and his son, the Honorary Secretary, for the splendid way in which they had organised the dinner, and for having looked after Mr. Alexander and himself since their arrival in Bradford. He was delighted to meet at the dinner Mr. P. Anderson, former Secretary of the Bradford Chamber of Commerce, with whom he was associated in the past in Chamber of Commerce work. He was also pleased to see among the guests, Mr. Osborne Morris, the Official Receiver of Bradford, who came from his (Mr. Keen's) own part of the country. Speaking of industrial conditions, he said it was a matter for congratulation that from every quarter there were now coming assurances that trade conditions were improving. The Chairmen of various banks, the President of the Associated Chambers of Commerce and the leaders of various professional and trade organisations, seemed to be in agreement as to the upward trend of industry, and even the Chancellor of the Exchequer was so confident that there was a good time coming that he had announced there was no possibility of any relief in taxation. One important factor was the growing recognition of the need for economy in local administration and a minimising of the rates burden. In a speech which he (Mr. Keens) delivered recently to Incorporated Accountants gathered at Manchester he dealt particularly with this problem of rates, and called attention to the case of his own county. As Chairman of the Finance Committee, and as a member of the County Council for 28 years, he pointed out that in 1923 the expenditure under the control of the Council was but 21½ per cent., and last year that figure had shrunk to 10 per cent. With such a negligible measure of control the possibility of economy by a local governmental body was extremely small. Much of the present state of affairs in the cost of public administration had been occasioned by the Government placing on local authorities the administration of Acts of Parliament for which adequate financial provision was not made. He was, however, very glad to see that the Chancellor of the Exchequer had just intimated that any money he might have to spare would be applied to the rates problem, the incidence of which was at present inequitable, rather than to the relief of national taxation. Indeed, the matter had got a stage further for, from the King's Speech at the re-opening of Parliament, there would appear to be some prospect of the problem receiving attention during the present Session. He hoped that the Society of Incorporated Accountants would continue to contribute towards the solution of this serious problem. Accountancy in the main depended, proceeded the President, on good trade for the industries of the country, and not upon bad trade, as some people seem to think. Certainly there was insolvency practice, a subject upon which he had himself lectured the previous evening in Bradford, but the practising accountant spent most of his time in

laboriously endeavouring to prevent his clients from getting into a state of insolvency. He ventured to suggest that for every case that ended in insolvency, there were numbers of cases which avoided the Courts owing to the self-sacrificing zeal and skill of the professional accountant. In accord with the observations of Mr. Hamilton on the matter of tax evasion, he would like to say at once that the Society of Incorporated Accountants was entirely opposed to what is often described as "tax dodging!" But very recently the Society submitted a memorandum to a Committee of the House of Commons, presided over by Sir Robert Horne, expressing its views on this subject, but making, in regard to sect. 31 of the Finance Act of 1927, constructive suggestions in order to allay the misapprehension which exists amongst certain sections of the commercial community as to the intentions of the Chancellor of the Exchequer in the matter of super tax. In spite of the great progress of the Society, and the fact that its geographical organisation was more extensive than that of any other body of professional accountants, it was very doubtful if it could be said that the present position of the profession as a whole was entirely satisfactory. New entrants to the profession, through the orthodox doors of the Institute of Chartered Accountants and the Society of Incorporated Accountants, were numerous, and it would be difficult to absorb them all readily. Nevertheless, new accountants' societies were being formed, one might say, almost daily, and he fancied nearly all the letters of the alphabet would be called into use before long. Lord Hawart's remarks on the registration of accountants had caused a great deal of comment, but there was one caution which he (Mr. Keens) would like to impress upon the public. It was not correct to think that there were no registers of accountants. For nearly 50 years there had been two registers, and to be entered upon either of them meant proof of fitness as to professional training and experience and, in addition, the passing of examinations of ever increasing severity. Moreover, members on these two separate registers of Chartered and Incorporated Accountants could be removed if their conduct did not conform to the highest standards of professional etiquette. There was, indeed, no State register, but that was a different and a difficult matter concerning all accountants, and chiefly the younger members. The Council looked to the Branches and District Societies to keep it informed as to the trend of opinion in the Provinces. The Society was embarking on an extension of its Branch and District Society organisation, and he appealed confidently for the members' support of this policy, particularly when the alteration of the Bye-laws comes before them at the next general meeting of the Society. There could be no question of the necessity for closer and better organisation in the profession, the future of which depended in the end upon its individual members, upon their ability and character, and upon their determination and their individual industry. He appealed for the broad view and the open mind. He asked practising members to come to the assistance of the District Societies, to give to the young man the assistance they had themselves enjoyed, and to bring their knowledge and experience into the common stock for the benefit of their profession and the community at large. Above all, he appealed for a square deal and a fair chance for the young practitioner who would play the game.

Mr. F. OGDEN WHITLEY, O.B.E., F.S.A.A., City Treasurer of Bradford, in proposing the toast of "The Legal Profession and Kindred Societies," humourously referred to the litigant's conferences with "his friend" the solicitor and with "his friend" of the Bar, of his appeal to the High Court and then to the House of Lords, of the winning of his case after the expenditure of certain "little items of refreshment for my friend, and finally of his consultations with his broker and

his banker as to investments of what cash he may have been left with.

Mr. RICHARD WATSON, Barrister-at-Law, replying in a similar vein to the toast, said he was not quite sure what kindred professions he was speaking for in addition to the law. He presumed he could hardly describe medicine, or the church or the services, as kindred professions, but thought that he might rightly include the profession of burglary. Mr. Watson warmly congratulated the profession of accountancy on the great progress it had made in public esteem during the past 50 years—a progress which undoubtedly was due to the educational and other work of the Institute and the Society, and to the insistence on the highest professional efficiency amongst the young men entering its ranks. The profession had advanced enormously in status and in recognition by the commercial community. It had come to be realised how necessary were properly qualified accountants, and how valuable a guide and help they could be. They were no longer regarded as a rather necessary nuisance.

Mr. THOMAS GARDNER, O.B.E., C.A., President of the Bradford Chartered Accountants' Students' Association, also responded, and said he did so without diffidence because he was confident of the great part the professions had played, and were playing, in the welfare of the business community. No profession had been subjected from the earliest times to more approbrium than the legal professions; it had always been the butt of writers and cartoonists, but the law and accountancy were both very old and allied professions. It was on record, he believed, that Moses was the first lawyer and Aaron the first accountant, and between them they successfully carried out the first and greatest of all conveyances—that of the Children of Israel from the land of bondage to the promised land. The greatest attribute of the two professions had always been the power of penetration. It had started with that great conveyance, and to-day even an Archbishop could not be created without the aid of the legal and kindred professions. He hoped and believed that, just as the law had been notable for its penetration into the problems of autocratic government throughout the ages, so the accountancy and kindred professions would exercise sufficient power of penetration to save the country from the oft-threatened so-called "business Government."

Mr. WILLIAM CLARIDGE, J.P., M.A., F.S.A.A., Past-President of the Society, proposed the toast of "The Guests," and said he preferred to regard the toast rather as a vote of thanks to the many distinguished guests for honouring Incorporated Accountants with their company that evening. Mr. Keens had set forth something of the Society's programme, which was directed towards raising still higher the standard of their profession, and it was gratifying to feel in the presence of representatives of other professions and of trade and commerce, Incorporated Accountants had the sympathy of the community in their endeavours and enjoyed their confidence. That knowledge would be a very great encouragement in their work.

Mr. PERCY TOOTHILL, F.S.A.A., member of the Council of the Society and President of the Sheffield District Society, responded to the toast on behalf of the Guests. The Bradford Society, he said, had been extremely hospitable, and he would like to pay special tribute to the excellence of arrangements made by Mr. Reynolds, the Secretary. He paid that tribute with all the more warmth because of his own twenty-three years experience as Secretary of his own Society, which had resulted in his acquiring a very close knowledge of all that such functions involved for the man holding that particular office.

## Present Day Tendencies of Industrial and Commercial Development.

A PAPER read before the Liverpool and District Society of Incorporated Accountants by

DR. W. H. COATES, LL.B., B.Sc.

(*Treasurer of Imperial Chemical Industries, Limited*).

The chair was occupied by Mr. A. E. NOON, Incorporated Accountant (President of the Liverpool and District Society).

Dr. COATES said: "Struggle often baffled, sore baffled, down as into entire wreck; yet a struggle never ended; ever, with tears, repentance, true unconquerable purpose, begun anew." In these words of Carlyle it is possible to read the recent history of British industry and commerce. After living for the few months of 1919 and 1920 on the giddy heights of spurious prosperity there came the plunge down to the depths of depression in 1921, from which emergence is even yet not wholly complete. Seven long years of sentence have been served, with no remission for good conduct. In some quarters there has been a tendency to say that our condition is permanent, a tendency to relegate us to a back place. Gone is our commercial ability! Our financial leadership is passing! On this footing, all that remains is a graceful retirement into passive old age, while younger rivals take up the running and reveal to a quondam leader the truth of the old adage that youth will be served. If it were true that the onlooker always sees most of the game there might be cause for alarm in these gloomy reflections, inasmuch as these fears, or hopes, found most credit beyond these islands. Here at home, though fully conscious of our troubles and staggering under the weight of our burdens, we have still kept our grasp upon the torch of hope. Impoverished in real wealth, we are still as rich, if not richer, in spirit.

We may be baffled, at the moment, by the loss of markets in which we were once supreme. Stopped in one direction, we shall, however, find an outlet in another. In many respects we are at a stage of inquiry. We do not as yet know "which circumstance is vital and shall stand prominent; which unessential, fit to be suppressed; where is the true beginning, the true sequence and ending?" But the answer will come. We may be fumbling for the keys to our problems, but if the old ones prove useless we shall surely forge new ones. It is in this spirit that the main part of this paper will range lightly over the field of present day tendencies in industrial and commercial development. The title is in itself somewhat misleading. It points to hopes that must be disappointed. In the brief space of an hour neither voice nor ear could garner a tithe of the harvest that should spring from such a seed. We can but pluck a head here and there for scrutiny.

### THE NEED FOR PRODUCTION STATISTICS.

It is desirable, in the first place, to get a glimpse of our general condition. The word glimpse is used deliberately, for in few things are we so deficient as in statistical knowledge of the facts. In a recent paper to the Chartered Institute of Secretaries on an Index of Production, I ventured to assist in urging upon the leaders of industry and commerce the need for progress in this direction. A few words may be quoted:—

Throughout the development of industry in the 19th century competition justified itself. It is, however, a question whether to-day there are not other and better methods. Secrecy was a tenet of the competitive creed.



Publicity must grow to be the tenet of the co-operative creed. . . . Life is essentially dynamic. It is made up of movement. Repercussions follow one another unendingly throughout the whole organism. . . . It is surely axiomatic that the more complex these movements are, the greater is the necessity for their study. But study is impossible without knowledge of the facts. It is here that the secrecy factor which is characteristic of British industry is dangerous. Given this inter-connection of function, this intricacy of our modern economic structure, what is happening to one member of the body is, or should be, of intense interest to all the others. There can be no robust health in the body without equality of that condition in its members. Without harmony of the parts the tone of the whole cannot be satisfactory. For this there is one essential, co-operation, which necessarily entails knowledge by each industry of the others' salient indicators of existing conditions.

Mr. Walter Layton, the editor of the *Economist*, dealt with the same theme in an earlier address to the same Institute, which is reported in the *Secretary* of December, 1925. The matter is even more fully dealt with in a booklet entitled—"The Facts of Industry" (MacMillan, 1926), which contains a report compiled and approved by a strong committee, upon which sat not only experts like Professor Bowley and Mr. Layton, but leaders of industry in the persons of Mr. W. L. Hitchens and Mr. Kenneth Lee, and representatives of labour, Mr. Hodges, Mr. Brownlie and Mr. Pugh. They said:—

The information collected . . . shows that in a number of instances, the collection of complete and reliable statistical information has proved to be most useful in industrial negotiation. On the other hand, it shows that only in a few industries there are any systematic effort made to collect and to make continuous use of such information. In the majority of cases statistical information is either non-existent or is only sporadically forthcoming, or is not specially suited to the purposes we have in view. We suggest, therefore, that one of the most useful directions in which the attention of all parties concerned in industry—the Government, the employers, and the trade unions—could be turned is towards the elaboration of a scheme for the compilation and publication of the relevant and essential facts.

Reference may also be made to one more address on the same subject, delivered to the Royal Statistical Society on January 18th, 1927, by Mr. A. W. Flux, C.B., M.A., assistant secretary in charge of the Statistical Department of the Board of Trade, under the title of "Indices of Industrial Productive Activity." No excuse is necessary for dwelling at some length on this phase of possible improvement in British habits. It is hoped that you will take an opportunity of informing yourselves, or of refreshing your memories, by turning to the papers to which reference has been made. Only by a wider dissemination of the ideas and purposes there made manifest can progress come. To few professional bodies are more opportunities given than to members of the Society and the Institute of impressing upon the leaders of industry the imperative necessity of co-operation in the direction of more publicity in industry. You will remember that in October, 1921, Sir Josiah Stamp spoke to you on the subject of "Economics as an Exact Science." He referred to the talents that lay hidden in your profession, talents which could be used to serve the needs of economic science by the collection, analysis and study of the valuable material which passes day by day through your hands. The task of

research which he sought to lay upon you was difficult; that in which these present words seek to enlist your influence is far less onerous. To many of us who believe in this new creed of co-operative publicity it is given only to broadcast the written word, but to you there is given the precious opportunity of the spoken word upon occasions and in circumstances which cannot be matched.

There is perhaps some doubt whether these movements may, when taken together, be considered sufficient to constitute a tendency. They are certainly little more. To stand at the tiny head of a great river and to reflect upon its winding course to the sea, broadening and gaining strength as it proceeds, is a stimulating experience. It is to be hoped that these scattered rivulets of new thought on the need for more knowledge of the facts of industry may coalesce gradually into a broad stream which, irrigating the fields of trade, will bring added prosperity to all who labour therein. It is not necessarily a matter for governmental action. Industry should act for itself. In doing so it may get away from the inconsistent tendencies to ask, on the one hand, that the State should restrict its expenditure within the narrowest possible limits in order that money may fructify in the pockets of the people, and to ask, on the other hand, that the State should do this and that and the other for the assistance of trade. Professor J. H. Jones, who is well known to you for his brilliant articles in the *Accountant*, recently pointed out that the American business community attaches much more importance to economics than we do, and is prepared to back its opinions by financing large institutions which have no counterpart here. An example is the National Bureau of Economic Research, led by Professor Wesley Mitchell, with a large staff of workers, which has already published a considerable number of volumes dealing with modern business conditions. Not only do large business organisations in the United States support such institutions, not only do they give facilities to the teachers of economics and statistics in the American Universities and business colleges which are beyond the reach of their colleagues here, but they maintain also economic and statistical staffs on a scale which we have not yet attempted. It was Professor Jones's conclusion that for every man engaged upon economic research in this country there must be at least a dozen men so engaged in the chief industrial and commercial centres of the United States. In the fields of technical research we have a better record, but it is largely a post-war development. You will recall that three papers recently communicated to the Royal Society by Professor E. C. C. Baly and three colleagues of your University of Liverpool, on the "Photosynthesis of Naturally Occurring Compounds" were based on research supported financially by Brunner, Mond & Co., Limited, now a subsidiary company of Imperial Chemical Industries, Limited. To this sphere of work the latter company is devoting great attention. A Council of Research has been established, which will link up the activities of high independent authorities with the correlated investigations of men commercially engaged in the development of chemical industry. In other industries also there is a keener realisation of the benefits to be derived from studies and experiments of this nature. That there is, however, still some room for improvement is evidenced by a recent complaint on the part of a chairman of a research association of a lack of financial support.

#### THE GENERAL INDUSTRIAL POSITION.

In tracing this welcome tendency to devote more attention to knowledge in the economic, statistical and scientific worlds, sight has been lost for a few moments of the desire to get a glimpse of our general condition. In their recent booklet on "The National Income, 1924," Dr. Bowley and

Sir Josiah Stamp, after examining the available statistics in detail, came to the general conclusion that the national income in 1924, when expressed in terms of the real home produced income per head, did not differ appreciably, even when all duplications arising out of taxation for debt and pensions, services, &c., had been eliminated, from that in 1911. They considered this result to be more satisfactory than that which had been arrived at by other investigators on the basis of the estimated comparative volumes of real production in those two years. This throws an illuminating side light on the deficiency of our normal supply of production statistics. Since that booklet was published there have become available the preliminary reports of the 1924 Census of Production for all industries in Great Britain. Mr. J. W. F. Rowe dealt with them very fully the other day in the Manchester Commercial's Annual Review for 1927. He showed that, deducting the taxation paid in respect of beer and sugar, the total net product of all industries in the old United Kingdom of Great Britain and Ireland amounted, in 1907, to £697 millions, whereas that for Great Britain only in 1924 amounted to £1,631 millions. In index form the figures would be a base of 100 for 1907, and an index of 234 for 1924. Price level changes make these figures useless as they stand. Borrowing from Professor Bowley and Sir Josiah Stamp an estimate of the modification necessary to eliminate this factor, Mr. Rowe concluded that the volume of production in 1924 in Great Britain was not less than 9 per cent. and not more than 15 per cent. greater than it was in 1907. If the volume of income arising from services, from the annual value of houses and from income arising abroad has increased slightly, following the increase in population, Mr. Rowe thought that our income from all sources available for saving or spending may be at least as great, even per head of the population, as it was in 1907. While this view is comforting, it is not cheering. Evidently there is considerable leeway to be made up before we can say that our resources per head are equal to those we enjoyed in 1913, which was a year of greater prosperity than the year 1907.

Underlying the movement of the whole volume of income or production, which the foregoing facts suggest has been in a downward direction per head, when compared with 1913, there are at work certain tendencies which are of major importance. The first relates to the distribution of income between spending and saving, or, to be more correct, between spending upon consumption goods and spending upon instrumental or capital goods. It is not necessary here to examine this fact in any detail. Those who are interested will be familiar already with the conclusions of the Colwyn Committee on National Debt and Taxation, to the effect that while nominal savings have increased since 1913 real savings exhibit a decline which may amount in present money values to something like £150 millions to £200 millions. Closely connected with this alteration in the volume of savings is the alteration in the relative positions of the exporting industries, coal, iron and steel, engineering, shipbuilding, cotton and wool, and the principal home industries, those manufacturing food, clothing, drink, tobacco, chemicals, and the printing, timber and building industries. Of the former group it may undoubtedly be said that the ratio of the volume of post-war profits to the volume of pre-war profits falls far short of the ratio of the respective price levels of the periods concerned. In the latter group that ratio of profit movement may not have varied much from the price level movement, but it has assuredly not fallen far short of it. Our volume of overseas investments has shrunk considerably. The stream of foreign going capital which formerly carried out the products of the exporting industries has been seriously reduced.

Professor Gustav Cassel, in his monograph on "Recent Monopolistic Tendencies in Industry and Trade," presented to the International Economic Conference, has made this point clear. "Looking back on pre-war times, we find that even then European exports were possible only by means of extensive and continued granting of loans from Europe to the colonial world. . . . Since the war, the ability of Europe to supply the colonial world with the necessary funds has been very substantially reduced. . . . It is by no means mere chance that the depression in Europe has made itself most strongly felt in the capital producing industries, especially the iron and steel, and also engineering industries, or that those countries which used to stand in the first rank as exporters of real capital to the colonial world, viz, England and Germany, are now those to suffer most seriously from unemployment." At the same time, the productive capacity of some of the exporting industries, e.g., the metal industries, has been largely increased, partly through technical improvements and partly through a real addition to the number of productive units. While demand has shrunk, because the river of credit in the shape of overseas investments has fallen low, supply has increased.

#### THE TENDENCY TO RATIONALISATION.

When the supply capacity exceeds demand, the remedy which finds most acceptance to-day is that known as rationalisation. What is to be understood by this term? One of the best summaries is to be found in the monograph prepared for the International Economic Conference at Geneva last year by the International Labour Office, entitled "Scientific Management in Europe." Under the head of General Organisation of Production is grouped the following programme:—

Study of methods for stabilising production and employment.

Standardisation (normalisation, unification, simplification).

Elimination of waste.

Horizontal and vertical combination; national and international industrial agreements, cartels, trusts, syndicates; action by Governments, by public services, by employers' and workers' organisations.

Specialisation; mass production and distribution; study of the general problems of the distribution of raw materials, the organisation of markets, transport power and labour supply.

Two sentences from this pamphlet may be quoted. First: "Any country which is markedly in advance in the matter of scientific organisation is undoubtedly in a position of advantage as compared with its industrial rivals." Secondly: "In Great Britain . . . . employers have shown more indifference than on the Continent to technical methods of organisation." In the volume on "Factors in Industrial and Commercial Efficiency," published by the Balfour Committee on Industry and Trade, support is lent to this view. There it is noted that the committee on the Iron and Steel Trade were impressed with the contrast between the individualistic and relatively inefficient industry of this country and the highly efficient iron and steel industries of Germany and the United States, where immense concentration of capital was the normal form of development. A similar Committee on the Electrical Trades commented upon the lack of organisation of British manufacturers as compared with German interests. In the engineering trade the same expression of opinion arose. The Committee on the Textile Trades found that in the staple branches of the cotton industry, and to a lesser degree in the woollen and worsted and the jute industries, the advantages



of specialisation and large scale production were fully reaped. All these reports related to 1916, and in many respects the intervening years have seen a marked improvement. It is doubtful, however, whether the conclusion as to the textile trades was well founded. In the recent examination of the wool trade by Mr. Shimmin (*Statistical Journal*, January, 1926), it was pointed out that for 1,384 concerns engaged in combing, spinning and manufacturing, the average number of employees under the National Insurance scheme was only 122 per concern. Distributing the number of operatives by firms, it was found that only 50 concerns employed over 500 hands, and only 14 employed over 1,000. A special correspondent of the *Times*, when dealing with the wool trade the other day, quoted these figures, and contrasted them with the average of 370 operatives per firm in the Roubaix-Turcoing district of France. It may be doubted to-day whether the average net product, on census of production lines, is much more than £35,000 per concern in the wool and worsted trades, or more than £50,000 per concern in the cotton trade (spinning and weaving, and piece goods generally). It is therefore difficult to regard these trades as organised for large scale production or economies.

The main point to be made, however, is the definite tendency to-day to approve of rationalisation, as compared with the pre-war tendency to disapprove of combinations in industry. It is quite clear that the objects of scientific organisation of industry can be secured only in large business units. In the case of smaller concerns expense is either prohibitive or the effort at co-operation and co-ordination calls for faculties, tolerances and team work of an order which is rare among British business men. It is surprising that we should have taught the world the value of team work, as exemplified in our national games, and yet have failed to profit by carrying that spirit and its practical outcome into the industries by which we live. There we are still intensely individualistic. But while there is now a more general willingness to welcome large industrial mergers, to believe that they make for economy and efficiency, the spheres in which they have been taking place are those in which their need is not greatest. When supply capacity exceeds demand there must take place, in the absence of a rationalised re-arrangement of productive capacity, a war of survival. This is facilitated by the varying circumstances of competitive concerns. Differences in local situation, in the quality of management, in fortuitous circumstances, in the reputation of goodwill, in financial circumstances, in the size of the concern and otherwise, all contribute to a variation of the final result, when interpreted in terms of business profit or loss. "On a priori grounds, the normal expectation would be that these infinite variations would, when interpreted in the resultant terms of the profit or loss of the producer, show a continuously graded result, ranging from a net loss to a considerable profit, judged in relation to some fixed standard such as the unit of capital employed or the unit of business done." The statistics presented to the Colwyn Committee, Appendix XI of their Report, support this thesis. In the cotton industry, 374 concerns, making up their accounts to a date in the last quarter of 1922, had an aggregate turnover of over £57 millions. Of this no less than 34.44 per cent. was conducted at a loss. At the same time, in the same group, 13.43 per cent. of the turnover was conducted on a basis of 10 per cent. profit or more. In the case of 329 concerns, in the same industry, making up their accounts to a date in the succeeding quarter, the first of 1923, with an aggregate turnover of £54 millions, the corresponding percentages are 30.01 per cent. at a loss, and 8.22 per cent. at a profit of 10 per cent. or more. The bulk of the business done yielded

a profit between nil and 10 per cent.; the precise percentages of the total turnover are 52.13 and 61.77. It is true that these results are a composite of the varying fortunes of different sections of the industry, but if the figures were separated they would show the same distributional characteristic. Profit here means profit as computed for income tax purposes, including all interest payable under deduction of income tax. It does not mean profit available for preference and ordinary shareholders. In the wool and iron and steel trades the same feature appears, although the percentage of turnover done at a loss is far smaller. Although there are no comparable statistics for later years, it may be taken that the situation is not much better in the cotton industry, that it is worse in the woollen industry, and perhaps a little better in iron and steel. These figures are valuable as showing the difficulties in the way of rationalisation in industries which are in a depressed condition. What inducements can be offered to the profit making concerns to co-operate with those making losses. Competition will in due course provide a remedy by bankruptcies and liquidation. Co-operation would provide it by scientific re-arrangement and re-grouping, by selected mass production in the lines of trade in which it was feasible and appropriate.

Amalgamations and concentrations of industrial units fall clearly into two categories: those which proceed from financial prosperity, or which at least take place in such conditions, and those which proceed from adversity, over-production and out-throat competition. So far in this country the former class has predominated. In the latter class the difficulties are innumerable. Even in the most favourable circumstances, the benefits of concentration in large units come but slowly. Many pitfalls have to be avoided. Over-capitalisation is an ever present danger, stimulated by the necessity of securing the assent of exchanging shareholders through an increase in the nominal value of the capital held. There is the inclination to attach too high a value to real assets, based on the cost of their reproduction, and on forgetfulness of the fact that once liquid capital has become fixed in industrial plant its worth is governed almost entirely by its earning power. Even that earning power may be turned into capital values on too high a basis by the use of an excessive multiplier, without sufficient allowance for the future provision of internal reserves. In any case heavy initial expenses must first be faced. Though the burden of the stamp duties in such cases has been largely removed by recent legislation, there remain the costs arising from legal expenses, printing, clerical labour, advertisements, &c. Compensations cannot be avoided, not only to displaced workers, but to displaced officials, directors and others. Capital losses will also have to be written off as redundant plants are closed, and as manufacturing operations are gradually concentrated in the most efficient and best situated works. Even when a fusion of interests has been legally executed, it still remains to make it practically effective. For this time again is required. Rival systems of organisation must be examined; unsettled personnel must be re-arranged; old suspicions, rivalries and jealousies must be allayed; new friendships must grow; uniform arrangements of costing, accounting, statistics, reports and so on must be introduced. Not until some time has elapsed can comparisons be made, decisions taken as to the changes or modifications which are necessary, and the consequential re-arrangements fully carried out. Extraordinary patience, persistence and tact are required for these operations. But the prime difficulty always is to find leaders of such calibre and standing as will first have the courage to initiate so hazardous an undertaking, and subsequently display the energy, foresight and grit, to carry

through all the prolonged and intricate negotiations which are unavoidable. The position is also complicated by the fact that leaders of this metal are the more likely to be found in charge of concerns which, despite generally adverse conditions, are able still, by a high level of efficiency, to keep their heads well above water. In that situation time is on their side. Economic pressure will in the long run work for them, not against them. Only men of the longest and highest vision will put the general welfare of the industry first, and realise that the most difficult course is the wisest, and over a long period also the most remunerative.

It would perhaps be rash to say that there is a movement in this direction, but there is certainly a tendency. Confident belief in its gradual growth to a strong conviction of its efficacy is the justification for discussing it in this paper.

#### THE TENDENCY TO CARTELS.

In the coal industry, also depressed because it is suffering from the fact that actual and potential supplies, not only in this country but in Europe as a whole, are far in excess of effective demand, another remedy is being canvassed. For example, a sub-committee of the Commercial Committee of the Monmouthshire and South Wales Coal Owners' Association has been considering how the present mal-adjustment of output and current effective demand for coal could be rectified. The problem which has to be solved, of course, is the selection of collieries the output of which is to be reduced or stopped altogether. At present the matter has only reached the stage of investigation of a scheme. Time alone can show whether all the conflicting interests in question can be brought into line. In printing particulars of this movement the *Economist* notes that this is the first time that any proposals affecting output regulations have been countenanced in South Wales since 1897, when the suggestions of the late Lord Rhondda for the restriction of individual colliery outputs to allocated quantities, determined on the basis of an agreed datum period, were under consideration, in order that the estimated current requirements of trade might be correlated with the production, under penalties for production in excess of participation figures.

Similar solutions of the problem of over-supply in this industry are being considered in South Yorkshire and elsewhere. The adoption of proposals of this nature would mean, in effect, the formation of a cartel, or a selling organisation, resting upon a structure of linked but independent supply units, each of which observed the restrictions upon output necessary to market the saleable production on a basis of reasonable profit. The weaknesses of such organisations are well known. They include, as a rule, all producers, weak or strong; the organisation as a whole has to carry the weak. But a greater difficulty, often insuperable at the start and nearly always the cause of a final breakdown, is the settlement of the quotas. For this reason cartels are usually formed for a fixed period. Changes in the balance of the parties, alterations in market conditions, re-alignments of foreign competitors, and other factors frequently give rise to internal strife on the subject of the quotas. If price is fixed at a level which keeps in being the weakest producers there is danger from foreign competition, unless this is guarded against by the formation of an international cartel, or the grant of protective duties for the home market. Few internal economies are available. Existing organisations, plants and works, are largely retained. There must always be doubts as to the possibility of a free interchange of ideas, inventions, new processes, patents, costs, and so on, lest on the break up of the cartel much that was valuable when an individual possession becomes valueless when general property.

#### THE TENDENCY TO SAFEGUARDING.

A third tendency to provide a solution to the difficulties of basic industries is by way of safeguarding duties. Because this touches the political field little will be said about it. In exceptional times, such as have recently been experienced through the abnormal competition arising from foreign currency depreciation, there is much to be said for this form of remedy, as a temporary plaster for a temporary ill. It cannot be denied, moreover, that from the particular point of view of any one industry the advantages to be secured are substantial. This is not a suitable test. It is the general welfare which must come first. For that, no remedy which may effect a reduction of the total volume of goods and services available for consumption and saving, deserves support. It is fatally easy in looking at things seen to forget things unseen; it is equally dangerous to imagine that the welfare of a small compact body which thrusts itself upon our notice is more important than the aggregate welfare of a far larger number who can be identified only as separate units.

It is always useful, when considering this vexed question, to pay some attention to the financial side. When we buy from abroad we pay in our own currency. The foreign seller finds himself either with a sterling bill, or with a sterling bank balance. If you ask what use it is to him, it is difficult to find any answer other than the one that he will convert it by some means or other into his own currency. And when you examine those means you will realise that—unless he or some third person takes gold, a step which automatically brings its own remedies—he, or as is more usual some other foreigner, acquires that right to sterling simply in order to pay some British manufacturer or exporter for goods that have been bought by a foreigner. Numerous links may exist in the chain, but the end is always the same. If our goods are too dear the gold will go, but the price level will ultimately be re-adjusted to stop that process and substitute in its place the export of goods.

#### RATIONALISATION AND SERVICE.

On the whole it seems that most is to be said in favour of the tendency towards bigger business units; in fact, towards rationalisation. It would be strange, of course, if this method had no defects. Many might be mentioned. They would, however, be outside the province of this paper. Instead, it may be noted with satisfaction that as the business unit grows larger there tends to develop with it a new philosophy, a philosophy founded upon a broader outlook, inspired with a more exalted spirit, and distinguished by a deeper humanity. It may be expressed in the one word service. The earlier teachings of economics looked primarily to immediate results; they were concerned, so to speak, with the short term market. Little, if any, attention was paid to long distance consequences. The future was too uncertain; life had too many hazards. Sufficient for the day was the evil thereof. Men argued with an easy conscience that the pursuit of the individual benefit necessarily involved the general advantage. Their eyes were fixed on the distant vision, but its substance was formed of dreams of wealth within a limited circle. All that lay without the diameter of their view was ignored; the well-being of the labour that contributed its strength of body and spirit was often forgotten. To-day all this is changing. The ideals are wider markets, bigger production, a smaller profit per unit of product, but a larger aggregate, the best possible treatment of the worker and the highest level of service for the consumer.

We may even find this ideal of service deliberately stated as the primary purpose of the concern. The quotations which follow are, it is true, from American sources, and for this reason may be suspect in some degree as savouring of propaganda. But the earnestness with which American



business men have preached this doctrine is, it is suggested, sufficient justification for regarding the statements as *bona fide*.

"The ideal and aim to-day of the American Telephone and Telegraph Company and its associated companies is a telephone service for the nation, free, as far as humanly possible, from imperfections, errors or delays, and enabling at all times anyone anywhere to pick up a telephone and talk to anyone else anywhere else, clearly, quickly, and at a reasonable cost."

We shall do our own government owned telephone and telegraph service no injustice if we attribute to it the same ends and ideals; but that is a government service in which profit is not the primary end. We may think that there is yet much to do to reach the ideal, but that is another matter. In the case of the American company, profit is a primary end because it is a private enterprise, yet the ideal of service is strongly emphasised. One more instance may be taken. A light and power company, again in America, says in its report:—"It's (the company's) purposes are two-fold; first, as to the public served, to improve and develop the service in the territories occupied by its subsidiaries; and second, to offer the opportunity, through purchase of its securities, to participate in an investment which, through diversification, has greater stability than the same investment in a single property. Common control through a holding company makes possible the raising of new capital in adequate amounts when needed for the development of the public service, and, through breadth of view and experience, makes for sound engineering and economic operation and the bringing of good service to many communities which without the holding company's backing would have inferior service."

Over a century ago Burns lamented that we could not see ourselves as others see us. He could not be expected to have foreseen that this deficiency would in due course be supplied by the foreign Press. The following extract of a speech made at the American Bankers' Convention last year holds up the mirror:—

"Twenty-five years ago the average light, heat and power and traction company was a financial cripple, an inefficient public servant, a handicap to the community and a perpetual football of a low order of politics. . . .

"Combined capital finally came to their rescue, discarded their archaic equipment, eliminated their provincial policies, and substituted enlightened business management in their stead. Holding companies came to the aid of single units. They next merged separate local properties in the same community under a higher class management. They next combined many companies spread over a broad area, eliminating useless and costly duplications of equipment and service, furnishing wider financing possibilities and increasing the stability of securities in such a manner as to inspire willing and widespread public investment. . . .

"Contrast an Object Lesson. In London alone there are about 110 electric light plants, hardly any two of which operate with the same voltage or frequency. Each has its franchise in a particular ward within the limits of London in which it operates. The public uses electric appliances to a minimum degree, because different sections require not only different voltages, but different appliances."

"Each of these companies has small capital, a small plant, and generates a small volume of power, making the service cost to the public many times greater than in the United States."

"It is strange, indeed, that a people whose commerce has circled the world should persist in paying all the

penalties of poor service at high cost for lack of combinations of capital in the manufacture and distribution of light, heat and power in the capital of the British Empire."

In this particular field we have at last begun to move. In others, where conditions are even worse, we still hesitate.

#### THE VOICE OF LABOUR.

"Printing, which comes necessarily out of writing, I say often, is equivalent to Democracy; invent writing, Democracy is inevitable. Writing brings printing; brings universal every-day extempore printing, as we see at present. Whoever can speak, speaking now to the whole nation, becomes a power, a branch of government, with inalienable weight in law making, in all acts of authority. It matters not what rank he has, what revenues or garniture; the requisite thing is that he has a tongue which others will listen to; this and nothing more is requisite. The nation is governed by all that has tongue in the nation; Democracy is virtually *there*. . . . Democracy virtually extant will insist upon becoming palpably extant." These further words from Carlyle will serve as a prelude to a few remarks on the tendency of the relations between workers who are employees and those who, also workers, are in the position of directing those who are employed. Since Carlyle wrote, the facilities for the rapid dissemination of thoughts, claims, pretensions and demands by way of printing have multiplied manifold. Nor have the opportunities thus provided been neglected. So far it may be legitimate to say that the results have been disappointing. Long range bombardments have been continuous. Hand-to-hand fights have been interspersed, threatening a general *melée*, which was actually staged two years ago. It is only within recent weeks that active steps, on a broad scale, have been taken towards a general congress, designed to explore the many issues involved. It has been pointed out that the worker of to-day is of a new type; he reads, he thinks, he asks questions. Some may say that his reading is badly chosen, his thoughts ill-directed, and his questions irrelevant. But simple negatives and blunt contradictions are not argument. They serve no purpose but to irritate. Thus we read that to-day the political principle must be observed; that it is persuasion which must be used, and not orders. If there is to be a common understanding, in place of the common misunderstandings, it must be based upon reason. To know all, it is said, is to understand all. The difficulty, in the first place, is to define the knowledge, and in the second place to believe that such knowledge will serve as a basis of co-operation, and not as a jumping-off ground for further strife. The thought is gaining ground that the loyal co-operation of labour is a quality which must be paid for, and more, that it is a quality worth paying for. How good an investment it is the records of American industry bear witness. When challenging questions are hurled at existing institutions and present methods they must be answered. While historical continuity may be *prima facie* evidence of worth, it is still no proof. Judgment may still be demanded on the witness of ascertained facts. It has always been assumed or asserted that capital bears the risk of industry, and that it is therefore entitled to be the residuary legatee of all the rewards for risk. To-day there is a tendency to question this practice. Capital may spread its risks. Human labour is one and indivisible. The labourer must deliver his labour in person. There is ample statistical evidence that the investor, except in rare instances, distributes his eggs over many baskets, in the confidence that damage to one here and there will be more than compensated by a natural increase arising from others more fortunately placed. No such alternative is open to the other partner in industry, whatever his place in the scale.

## CAPITAL AND THE REWARD FOR RISK.

We are thus meeting with the question of whether capital's risk can be more closely defined, whether it can be more closely measured, and whether it can be more fairly because more steadily rewarded. In other words, can that phase of rationalisation which is called stabilisation be applied to the risk rewards of capital? Such a conception is of course no innovation. There are few investors who in respect of part of their resources do not seek that element of stabilisation through priority securities. Not so long ago there was a strong tendency to place an increasing share of new capital resources in investments of this nature. A movement in the contrary direction is now noticeable. It is being advocated even for such conservative investors as the great life assurance companies. The challenge to be faced is whether it is economically desirable that there should be any capital which, on the one hand, is prepared to bear the residuary losses, and on the other hand claims all the residuary profits. Wide and difficult questions are involved. As yet they have received little patient study. Too often the inclination is to dispose of them summarily, by an abrupt yes or no, founded upon instinctive reasoning, which may sometimes be dictated by environment, history, prejudice or superficial reading. Why do new capital resources accumulate? We know the conditions which are favourable, but we know little of the sources, beyond the important fact revealed by the Colwyn Committee Report that upwards of 30 per cent. of the total is provided by the undistributed profits of companies. If an important proportion of the balance arises either from the surplus income of those whose expenditure provides for all their requirements, without the exercise of any denial, and if much of the remainder arises from the desire to accumulate capital primarily, so that the rate of income earned upon that capital is a secondary consideration, then it may be possible to contemplate a limit to the rate of dividend which any capital employed in industry may take, without leading to any adverse economic consequences. If we assume for a moment that such a state of affairs is possible, under which ordinary shares would be assimilated to shares in many public utility undertakings, many questions would need consideration. The simplest case would be that of a new business. Up to the date when the profit available for distribution just provided a dividend at the limited rate, no trouble would arise. After that what is to be done with any surplus? Perhaps the suggestion would be that it should be divided entirely irrespective of rank among those engaged in conducting and working the business. But this would be unsatisfactory, because it would make no provision for a rainy day. Clearly a defined part of the profit would have to be accumulated as reserves; in most cases it would be needed for extensions and developments. Is any part of it to be kept liquid, to provide for the maintenance of the limited dividend in poor years? How would Stock Exchange values be affected? Would there be a maximum value, varying with the current rate of interest, or would the accumulation of capital values through the retention of reserved profits operate to vary that maximum, notwithstanding the possible fact that only in the event of liquidation would such capital assets be freed for distribution. It is possible that market movements as we know them would largely disappear, or, perhaps, become closely assimilated to the movements in value of debentures, bonds, and preference shares. Would this be an advantage or not?

Then there is the question whether a movement of this kind would interfere with the movement towards rationalisation discussed in the earlier part of the paper. Could amalgamations and mergers take place with the same ease? On the labour side there are also difficulties. If the whole of the share of profits available for distribution among the workers

were withdrawn in cash, what would happen to wages when the time of depression came? Could they be reduced, or would a maximum tend to become a minimum? If the share of the surplus appropriated to shareholders had to be accumulated in the business, would it be necessary to accumulate also the share of labour? If so, in whose hands? It might be difficult to put it into the business. Would the unions accumulate it? What purpose would the fund have to serve? If it were to maintain wages in time of depression, then some fiduciary guardianship of these funds would need to be constituted. Perhaps when a sufficient fund existed there might be a labour dividend, that is, a dividend out of these funds to members of the unions interested. In good times the corpus of the fund would grow; in bad times it would be eaten into, either for wages, or possibly for contributing to losses.

Big general issues would also arise. How would the volume of national savings be affected? Would incentive as a whole be increased or diminished? If labour, as the largest numerical factor in industry, increased its efforts in production could we sell a larger quantity at a lower price in the world's markets? Would there be what we need so much, a greater total volume of production, so that, the cake being larger, each could have a bigger piece without raising jealousy or strife between those who share the whole?

## AN EXAMPLE OF LABOUR POLICY.

It is the hope of all that the present negotiations between a number of big employers and the representatives of the trade unions will result in such a concordat as will lead to this increase in the volume of production. Sir Alfred Mond, the leader in that movement, has already initiated in his own giant company, Imperial Chemical Industries Limited, a new labour policy of five points. In the first place he has stressed the need for a return, in large scale organisations, to the personal contact which distinguishes the relations of the owner of a small business with his people, partly through the establishment of a department with the sole duty of looking after labour problems, and partly through a system of works councils. Secondly and thirdly, he advocates an improved status and increased security for the rank and file, which is to be attained by the institution of a staff grade. Men and women on that grade become "established," so that in effect they are permanent employees, with pay, holidays and sick leave upon that footing. Fourthly, comes participation in profits, through the purchase by easy instalments of shares in the company which the workers serve. Lastly, means must be found of giving more information as to the doings, the intentions and the hopes of those controlling the concern. In this sphere many difficulties will arise, but there is reason to hope that as industry itself realises its need for more statistical information as to its condition, that information will be made publicly available. It will not take the form of details concerning individual businesses. In that form it would indeed be largely useless. What is needed is analytical statistics of whole industries, or at least of each of their main constituent parts. When the movement of prosperity, or depression, can be seen clearly year by year, or perhaps even quarter by quarter, so that all who run may read, we shall doubtless hear much less of strife and of wealth lost by days spent in dispute instead of in productive effort.

## INDUSTRY AND EDUCATION.

Another tendency which may be noted is the growing entente between industry and education. At bottom, all improvement in efficiency must rest upon progress in the ability, versatility and flexibility of the human instrument. During the past twenty years or so there has been a great



improvement in our educational system; the cost is very much higher, but this is an investment of money in personal, as opposed to material, capital, from which in due course a rich return may be expected. The closer the links between industry and education, the greater industrial efficiency we may expect. Imperial Chemical Industries has recently organised a system under which it will obtain early touch with boys who are displaying a bent for chemical science. Assured of their suitability in general respects, the company will register particulars of applicants approved by a committee constituted of members of the staff and representative headmasters of public schools. When these approved candidates have completed a satisfactory honours course at a university, followed by a further course of post-graduate research, posts will be found for them within its organisation. In other ways the study of personnel is advancing. No large concern can prosper which does not watch carefully over its younger men, encourage their aspirations, provide them with opportunities for development, and in general have in training always a nucleus from which responsible posts may be filled at any moment without the impetus of the concern suffering any loss of momentum through the temporary or permanent withdrawal of its executive heads. The larger an organisation the more necessary it is to have a department charged with the special duty of recording the qualifications of the staff, of seeing that opportunity is open to all, and of getting square and round men into their respective holes. In the initial choice of staff there is also a tendency to make use of recent scientific methods, through the use of intelligence tests and otherwise. Controversy still rages over the question whether industry should be recruited mainly or entirely from university graduates or from men who have been right through the mill from the age of sixteen or so. As in the Civil Service, it will probably be found ultimately that there is room, and need, for both classes.

#### THE RATING PROBLEM.

To be up-to-date, a few words may be said on the latest phase of interest in the incidence of rates. The Government is investigating their effects upon industry and trade. One benefit that has flowed from the inquiry and Report of the Colwyn Committee is the fuller recognition of the true incidence and effects of the income tax and super tax. We are hearing a little less to-day that these great taxes are the *causa causans* of all our industrial troubles. More and more it is being realised that they do not enter into costs or prices, and that they do not handicap directly our competitive efforts in foreign markets. So far as they check the accumulation of capital—a charge often brought against them, but still unproven—they may make the price of capital dearer or discourage in some degree the initiation of new enterprise, but there is much evidence to the effect that we lack not so much capital as orders which shall keep busy our existing capital appliances. In the case of rates it is quite a different story. Rates are exigible whatever the final outcome of industrial effort. Continuous losses confer no exemption from this burden. Again, income tax is a tax levied centrally, and by reference to national factors. Rates are purely local; the irregularities of distribution of wealth and of earning power are left effective in all their crudity. The swings and the roundabouts are entirely dissociated. Some four or five years ago I tried to interest old colleagues at the Treasury in the suggestion that all manufacturing concerns should be entirely exempted from local rates as such, and that the aggregate burden so remitted should be re-imposed upon them as an additional income tax, levied according to their ability to pay, as evidenced by the amount of profits assessed to the ordinary income tax. There were however many objections. Because rates are raised by partially autonomous areas, concerns

situated in wisely administered areas would object to sharing the burdens imposed elsewhere by less efficient authorities. The burden of rates on property occupied for manufacturing purposes is probably a smaller amount than is generally thought. In Appendix XI of the Colwyn Report it is stated that the amount of income assessed to income tax, Schedule A, as arising from real property owned and occupied for business purposes by companies, &c., in the year 1922-23, was £22,500,000. Part of this will consist of shops, warehouses and offices, not used for manufacturing purposes. On the other hand, some addition would have to be made for business property rented by the user. If we accept this figure, though it is probably too high, and take the average burden of rates as 60 per cent., or 12s. in the £, we should have an aggregate of £13,500,000 per annum paid in rates by manufacturing industry. The real burden is much greater. Wages are settled by many forces, but custom plays a part. They must be taken as including an element to meet the cost of rates on the premises occupied by the worker. This part of rates may by some be considered to enter, though indirectly, into costs. There is, however, another view to the effect, that the incidence of rates is partly upon the owner of the land upon which rated property stands. At this stage a distinction has to be drawn between onerous and beneficial rates. Some rates are merely charges for services rendered. Others represent a contribution to burdens of a national character. These points are touched on merely to bring home to you the fact that the problem of rates is a very difficult one. It is unlikely to be solved satisfactorily without prolonged consideration and much difference of opinion. One thing is certain; it is that when the burden of rates begin to weigh upon production to the extent of forming between 5 and 10 per cent. of the selling price at the factory gate, then our competitive power in foreign markets is being gravely endangered by a maldistribution of the burden. Before the Government has completed its inquiry it will no doubt need much statistical information. We may hope that industry will give freely of its help in this direction.

#### BUSINESS MANAGEMENT.

The last tendency to which attention may be devoted is that towards a more vivid study of the science of business management. Flairs and hunches are giving place to detailed studies. Statistical investigations figure largely in this development. We are hearing of management ratios. Comparisons may be odious, but they are extraordinarily useful in detecting weak spots or putting one upon inquiry, which may produce a perfectly valid explanation and yet at the same time suggest a new avenue of approach to an old problem. In this field we are no doubt far behind America. Even if they there indulge in too much investigation, we here indulge in too little. One of their greatest advances in recent times has been made in the sphere of budgeting. It is remarkable that although we have had a system of national budgeting for very many years, we have never made much use of it for commercial and industrial purposes. Now in the United States there was no such thing as a national budget until as recently as 1921. It took 15 years of agitation in that country to get the law passed which instituted their budget system. The cardinal feature of a budget is that every item of expenditure is planned beforehand, arranged in classes and sub-classes, so as to cover the whole field. American industry was quick to see the advantages of this plan when applied to its own circumstances, as an aid to efficiency, an instrument of control of expenditure and a potent weapon against waste. The basis of action is a sales estimate, built up section by section, in the light of all the known facts, with which every other phase of industrial commercial and financial activity is co-ordinated. Worked

out to its last detail, this scheme estimates the final profit per unit, and relates it to the volume of turnover and the amount of capital employed. If the rate of return offered is not satisfactory, then the figures and the realities behind them must be revised detail by detail until the whole presents a satisfactory picture from every point of view. Throughout the year actual is compared with estimated progress, so that checks and modifications may be imposed, if possible, whenever occasion demands. In this sphere of activity we have made a beginning, but there is undoubtedly room for more progress. "It stands to reason that the greater the amount of intelligent foresight which industry applies, the less are the chances for any economic factors to get out of control, whether these be production, prices, wages, credits or anything else. An evolution in this direction is certainly going on in America quite as rapidly as anyone could possibly expect such a deep seated change in economic habits to take place. When it is considered that in a country growing and changing as rapidly as the United States, economic frictions and maladjustments are much more likely to develop than in an older, more static country, it is clear that every development which tends to lessen the churning about of labour or credits, or any other economic factor through their more even use, and the avoidance of high peaks and low valleys, either seasonal or cyclical, constitutes a real gain."

### Incorporated Accountants' Students' Society of London.

#### ANNUAL MEETING.

The thirty-seventh annual general meeting of this Society was held at Cordwainers Hall, 7, Cannon Street, London, E.C., on Tuesday, February 21st. The President (Mr. W. Norman Bubb, F.S.A.A.) occupied the chair.

The SECRETARY having read the notice convening the meeting and the minutes of the annual general meeting held on Wednesday, February 16th, 1927, the PRESIDENT moved, as the first business of the meeting, the adoption of the report and accounts for the year ended December 31st, 1927. The President stated that, as all the members had received copies some few days previously, they had had an opportunity of considering them and learning from the report of the progress of the Society so that he did not propose to go through them in detail, but if there were any questions arising either on the report or on the accounts he would be happy to reply to them to the best of his ability. He added that, whilst the lectures during the past twelve months had, on the whole, been well attended, he thought, having regard to the large number on the roll of membership, that there was still room for increase in the attendances and, in order to meet the wishes and views of several who had approached him on the subject, he had taken steps through the Secretary to have a plebiscite of the members' views as to whether 6 o'clock would be more convenient than 6.30 p.m., and he understood from Mr. Fay that the result was a very large majority in favour of the hour being altered from 6.30 to 6 o'clock. The President said he hoped as a result that students would be able to attend in larger numbers. The report and accounts were adopted.

The PRESIDENT, in proposing the re-election of the Secretary, stated how indebted the Students' Society and he himself were to Mr. Fay for all the work he had done and was doing in the interests of members. It had made his task as President exceedingly light, and he was convinced that the members would not only re-elect Mr. Fay unanimously, but would also wish to associate themselves with his (the President's)

appreciation of Mr. Fay's untiring efforts and accord him a most hearty vote of thanks.

The following officers and Committee were elected for the ensuing year:—President, Mr. W. Norman Bubb, F.S.A.A.; Vice-President, Mr. M. J. Faulks, M.A., F.S.A.A.; Committee: Mr. W. Strachan, F.S.A.A., Mr. Walter Holman, F.S.A.A., Mr. S. T. Morris, A.S.A.A., Mr. A. A. Garrett, B.A., B.Sc., Mr. J. Robinson, F.S.A.A., Mr. H. E. Colesworthy, A.S.A.A., Mr. C. E. Wakeling, A.S.A.A., Mr. W. D. Menzies, and Mr. L. H. Plumptre; Hon. Treasurer, Mr. A. R. King Farlow, F.S.A.A., F.C.A.; Secretary, Mr. James C. Fay; Hon. Auditor, Mr. W. H. Payne, F.S.A.A.

#### 37th Annual Report.

The Committee have pleasure in presenting their thirty-seventh annual report and accounts for the year ended December 31st, 1927.

#### ACCOUNTS.

The accounts show a surplus for the year of £79 15s. 3d. The entrance fees amount to £19 15s. 0d., and the annual subscriptions to £326 14s. 0d. The Committee again desire to express their thanks to the Council of the Parent Society for their generous financial support during the year.

#### MEMBERSHIP.

During the past year 79 new members have been elected. At December 31st, 1927, there were 803 members on the roll, consisting of 195 honorary members in practice, 169 honorary members not in practice, and 439 ordinary members. The Committee regret to note that there is still a tendency for student members upon qualifying to cease to support the Students' Society. The Students' Society offers them valuable facilities, and it is hoped they will continue their membership.

#### REVIEW OF THE SOCIETY'S WORK FOR THE PAST YEAR.

The usual meetings were held during the spring and autumn sessions, and lectures were delivered by members of the legal and the accountancy professions upon a variety of important subjects which come within the scope of an accountant's duties and practice.

The Society is greatly indebted to Sir Henry Slesser, K.C., M.P., Mr. Gilbert Stone, B.A., LL.B., Mr. H. Heathcote Williams, M.A., Mr. J. Cameron Rennie, B.Sc., A.M.I.E.E., and Mr. E. D. Kissan, Financial Editor of the *Daily Mail*, for the lectures kindly delivered by them for the benefit of members.

Certificates of Merit were awarded to three members of the Students' Society in the Final examination, and one Place Certificate in the Intermediate examination.

The Committee wish to express their thanks to the Master and Court of the Worshipful Company of Cordwainers for permission to hold the Society's meetings in the Hall of the Company.

The following is a list of lectures and discussions held during the spring and autumn sessions:—

#### Spring, 1927—

Lecture: "Bankruptcy and Liquidations," by Mr. W. H. Grainger, Incorporated Accountant, Chief Accountant, Prudential Assurance Company, Limited.

Lecture: "Some Considerations affecting Liability on Income arising Abroad," by Mr. A. S. Allen, Incorporated Accountant.

Lecture: "Some Principles of Economics and their Importance to Commerce and Industry," by Mr. H. E. Davis, M.C., Incorporated Accountant.

Joint Meeting with the Chartered Secretaries' Students' Society—Subject: "Mock Shareholders' Meeting."



Lecture: "The Transfer of Contractual Rights," by Mr. C. A. Sales, LL.B., Incorporated Accountant.

Lecture: "The Accounts of Rubber and Tea Companies," by Mr. C. W. Braddy, A.C.A., Incorporated Accountant.

Lecture: "Education and Registration for the Profession," by Mr. Walter Holman, Incorporated Accountant.

Lecture: "The Law relating to Clubs and other Unincorporated Associations," by Sir Henry Slessor, K.C., M.P.

#### Autumn, 1927—

Lecture: "Points on the New Income Tax Legislation," by Mr. H. Heathcote Williams, M.A., Barrister-at-Law.

Lecture: "Preparation of Statements of Affairs in Insolvency Cases," by Mr. Daniel Mahony, Incorporated Accountant.

Lecture: "Some Notes on Industrial Property," by Mr. J. Cameron Rennie, B.Sc., A.M.I.E.E.

Lecture: "Residuary Accounts," by Mr. J. Linahan, Incorporated Accountant.

Lecture: "The Law of Insurance," by Mr. Gilbert Stone, B.A., LL.B.

Lecture: "The Accountant and the Investor," by Mr. E. D. Kissan, Financial Editor of the *Daily Mail*.

#### "TRANSACTIONS."

The thirty-first volume of "Transactions" for the year 1926 has been published, and distributed among the members.

#### EXAMINATIONS OF THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS.

The following students passed the Parent Society's examinations with Honours during the year 1927:—

MAY.—*Final*: Mr. I. Hartland, Third Prize and Third Certificate of Merit.

NOVEMBER.—*Final*: Mr. Norman Paine, Third Prize and Third Certificate of Merit; Mr. M. Benjamin, Fourth Certificate of Merit. *Intermediate*: Mr. R. H. Currell, Third Place Certificate and Third Prize.

#### OFFICERS AND COMMITTEE.

Mr. D. N. Crick, a member of the Committee, has tendered his resignation upon taking up a professional appointment abroad. The Committee desire to place on record their appreciation of the valuable services rendered to the Society by Mr. Crick.

Under Rules 3 and 5 the officers and members of the Committee and under Rule 10 the Honorary Auditor retire from office. Mr. Crick having resigned from the Committee, it is recommended that, in accordance with Rule 6, the vacancy be filled by the election of Mr. L. H. Plumpton. The remaining members of the Committee, the Honorary Treasurer, and the Honorary Auditor, being eligible, offer themselves for re-election.

The accounts, duly audited, are annexed to this report.

#### Dr. REVENUE ACCOUNT FOR THE YEAR ENDED DECEMBER 31st, 1927.

Cr.

	£	s.	d.
To Printing .. .. .	66	18	6
„ Stationery, Postages, &c. .. .	41	16	0
„ Reporting Charges .. .	34	4	0
„ Hire of Hall for Lectures .. .	36	15	0
„ Publication of "Transactions" .. .	147	18	0
„ Secretary's Honorarium .. .	52	10	0
„ Clerical Assistance .. .	12	12	0
„ Balance, being surplus of Income over Expenditure for the year .. .	79	15	3
	<u>£472</u>	<u>8</u>	<u>9</u>

	£	s.	d.
By Annual Subscriptions .. .	326	14	0
„ Entrance Fees .. .	19	15	0
„ Dividends ( <i>less</i> Tax) .. .	15	9	2
„ Grants from Society of Incorporated Accountants and Auditors .. .	105	0	0
„ Sundry Sales .. .	5	10	7
	<u>£472</u>	<u>8</u>	<u>9</u>

#### BALANCE SHEET, DECEMBER 31st, 1927.

	£	s.	d.
To Sundry Creditors .. .	16	9	6
„ Subscriptions paid in advance .. .	5	14	0
„ Revenue Account:—			
Balance at Dec. 31st, 1926 ..	£519	17	4
Add Balance as above ..	79	15	3
	<u>599</u>	<u>12</u>	<u>7</u>
	<u>£621</u>	<u>16</u>	<u>1</u>

	£	s.	d.
By Cash at Bank .. .	255	2	9
„ Investment:—			
£388 4s. 5d. 5 per cent. War Stock 1929-47			
at cost .. .	366	13	4
	<u>£621</u>	<u>16</u>	<u>1</u>

A. R. KING FARLOW, *Hon. Treasurer.*

I have examined the foregoing Accounts for the year ending December 31st, 1927, together with the Books and Vouchers of the Society, and find the same to be correct. I have also verified the Investment and the Cash at Bank.

LONDON, February 7th, 1928.

W. H. PAYNE, *Incorporated Accountant,*  
*Hon. Auditor.*

## The Accounts of Rubber and Tea Companies.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London by

MR. C. W. BRADDY, A.C.A.  
INCORPORATED ACCOUNTANT.

The chair was occupied by Mr. A. A. GARRETT, B.A., B.Sc., Secretary of the Society of Incorporated Accountants and Auditors.

Mr. BRADDY said:—A foreign plantation can for accounting purposes be regarded as a branch, and, generally speaking, the ordinary principles of branch accounts apply.

From an accounting point of view, branches may be divided into three classes, viz:—

1.—Where the trading is independent of the head office, and the branch keeps its own complete set of books. At the end of the year a trial balance, or a profit and loss account, is forwarded to the head office for incorporation in the accounts of the business as a whole.

2.—Where practically no books are kept at the branch but its transactions appear in the head office books, the information being obtained partly from the head office and partly from returns furnished by the branch.

3.—Where each branch has a separate set of books which are kept at the head office for convenience.

The accounts of rubber and tea companies may be kept according to either of these three methods.

The plantation where the system corresponds with that of the independent branch is usually a very large estate, or one of an important group. An accountant or skilled book-keeper is employed and a complete set of books is kept locally. The trial balance which may have been audited, is forwarded to the head office at the close of the year. It is usual, however, to furnish monthly statistics to the head office for the information of the directors.

Where this method of full local accounts is not in force a cash book is kept by the company's manager, or his assistant, and at the end of the month returns are forwarded to the head office, and from these records the books are written up in London.

The latter method is the one more frequently adopted, owing to the existence of so many small companies, which cannot afford to employ an accountant.

### ESTATE RECORDS.

Where the accounts are kept on income and expenditure lines an analysed purchase book (or expenditure journal) and purchase ledger are kept.

The monthly returns usually give the following information:—

- 1.—A copy of the cash book.
- 2.—An analysis of the month's expenditure.
- 3.—Manager's report.
- 4.—Crop harvested.

The crop harvested and shipped is frequently shown in the form of a stock account, viz,

Dr.	Lbs.	Cr.	Lbs.
Stock in hand from last statement ..		Shipments as per statement 5 .. ..	
Crop for month ..		Balance being stock on estate at end of month .. ..	

5.—Statement of rubber shipped, giving number of cases and weights.

6.—Labour statistics.

7.—Rainfall.

8.—Area tapped.

The analysis of expenditure is divided into two sections, revenue and capital, and each section is sub-divided into various expense headings. The following is an example:—

### ..... ESTATE.

#### ANALYSIS OF EXPENDITURE, MARCH, 1927.

	Brought Forward. (1)	Expenditure for Month. (2)	TOTAL. (3)
<i>Revenue—</i>			
1. Salaries .. ..			
2. Weeding .. ..			
3. Tapping .. ..			
4. Gardeners and Sweepers			
5. Maintenance of Roads and Bridges.. ..			
6. Drainage .. ..			
7. Pests and Diseases ..			
8. Hospital and Medicine ..			
9. Rice .. ..			
10. Buildings Upkeep ..			
11. Machinery do. ..			
12. Tools do. ..			
13. Motor Expenses ..			
14. Stores .. ..			
15. Cattle .. ..			
16. Factory Labour ..			
17. Rent .. ..			
18. Office Expenses ..			
19. General Expenses ..			
20. Packing and Cases ..			
21. Cartage .. ..			
22. Export Duty .. ..			
23. Shipping Charges ..			
24. .. ..			
25. .. ..			
<i>Capital—</i>			
26. Land .. ..			
27. Buildings .. ..			
28. Machinery .. ..			
29. Tools and Utensils ..			
30. Roads and Bridges ..			
31. Drainage .. ..			
32. Felling and Burning ..			
33. Lining, Holing & Planting			
34. Nursery .. ..			
35. Pruning and Thinning ..			
36. Weeding .. ..			
37. Pests and Diseases ..			
38. Cattle .. ..			
39. Motor Cars .. ..			
40. Furniture .. ..			
41. Salaries .. ..			
42. .. ..			
43. .. ..			
44. .. ..			
45. .. ..			

(1) Brought forward. This represents the expenditure for the portion of the year previously reported.

(2) Expenditure for the month. This should agree with the total of the payments side of the cash book, or with the total of the expenditure journal where the accounts are kept on income and expenditure lines.



- (3) Total of (1) and (2), which is the total expenditure to date.

This analysis is very useful to the manager for the following reasons:—

- (1) He can ascertain as regards any item whether he is keeping within his annual estimates.
- (2) He can compare the cost to date on any expense heading with the expenditure of the previous year.
- (3) By dividing the total output into the total expenditure, the average cost per pound of the crop can be ascertained.

The most important record is the monthly pay roll, which is a combined time sheet and wages sheet. The names of all employees are entered underneath one another on the left-hand side of the page, and narrow columns are ruled for each day of the month. At the end of the month the number of days worked is totalled, the rate of pay inserted and the amount of wages earned is calculated. It is the practice to make advances to the coolies, and columns are provided to record these advances and also any other deductions that may be necessary, *e.g.*, rice supplied. The difference between the total wages earned and the total deductions is then extended, and this is the amount due to the coolie. The wages are usually paid by the manager or his assistant in the presence of a witness, and the person paying and the witness sign the declaration as to the payment having been made.

The cash book shows on the debit side the remittances from the head office and any sundry receipts. The items on the credit side are numerous, and for this reason it is advisable to use two columns, one for pay roll advances and the other for ordinary payments. This method ensures that the recovery of any advance is not overlooked, as the total advances in the cash book should agree with those on the pay roll.

The books being usually kept on a cash basis until the end of the year, the above information can only be reliable if accounts are paid promptly and regularly. To enable as many as possible of the monthly accounts to appear as expenses in the period in which they are incurred it is a common practice to leave the cash book open for a few days after the end of the month. In spite of this, creditors' accounts may be overlooked, or the manager may hold over accounts until a later date where the expenditure already exceeds his estimates. To accountants the cash system appears to be wrong in principle and may lead to fraud, but in considering the matter one must remember the difficulties of keeping accounts on income and expenditure lines, where, as is very frequently the case, a skilled book-keeper is not employed on the estate. The largest items, *viz.* salaries and native wages, cannot of course be held over; the accounts referred to are those for stores and transport. A simple yet effective system is necessary because, in the first place, a planter cannot be expected to have an expert knowledge of book-keeping. Secondly, he should not have to spend more time on clerical work than is absolutely necessary as his proper place is in the field, where he can be more profitably employed than in the office. Assuming he does place his field duties first, he is frequently obliged to work on the accounts in the evening.

It is of vital importance that the directors should have the utmost confidence in the integrity and ability of the manager. So much depends upon his knowledge and the efficiency of his supervision, and there are so many opportunities to defraud his employers with very little chance of discovery. For example, he could:—

- (a) Fill in "dummy" names on the pay roll and take the cash.

- (b) Accept commissions from suppliers of goods.
- (c) Fail to account for receipts of an extraordinary nature.
- (d) Use the company's money to pay private bills.
- (e) Use estate labour and stores for a private plantation of his own in the neighbourhood.
- (f) Sell the company's produce and take the cash.

#### HEAD OFFICE BOOKS AS REGARDS ESTATE TRANSACTIONS.

Opinions differ as to the amount of detail appearing in the foreign returns which should be recorded in the head office books. The manager is debited with the remittances to the estate and is credited with the amount of expenditure shown on his monthly sheet. Some companies are satisfied with debiting the whole of the revenue portion of this expenditure in one sum to a crop or plantation account. Where this is done the manager's account in the head office ledger will be ruled with both currency and sterling columns, and will commence on the debit side with the balance in his hands at the date of the last balance-sheet. This account will be debited with the remittances in sterling from the London cash book, and the appropriate currency figures will be inserted when they are ascertained from the copy of the estate cash book sent with the monthly returns. The account will be debited with any other money received locally. The month's expenditure will be credited in currency at the same time, and the balance of the currency column is the balance of cash in the manager's hands, and should agree with the balance shown in the returns. The expenditure may be converted into sterling monthly, or the conversion may be made at the end of the year. As the currency columns balance, the difference between the sterling columns will represent profit or loss on exchange. Under this system, if it is desired to know the details of the total revenue expenditure debited to crop account, this information can be obtained from the last monthly analysis of expenditure for the year, as the figures in the total column against each item represent the total expenditure under that heading for the year, and the grand total should agree with the debit for the twelve months to the crop account.

The objection to this method is that this dissection of the revenue expenditure does not appear in the books, and can only be obtained from a statistical return.

The advocates of the other method journalise the monthly receipts and payments as analysed, and post each item to a separate ledger account. The advantage is that a detailed record of each month's expenditure appears in the head office books, and that the cost of any expense heading over a number of years can be readily compared. Where this system is adopted it is usual to keep a special "foreign ledger" ruled with currency and sterling columns to record the estate transactions. A current account is opened for the head office, as would be done in the case of any branch which keeps its own books, and to this account the amounts realised from the head office remittances are credited. To avoid a large number of conversions into sterling every month, it is usually arranged that throughout the year this ledger is kept in currency only in precisely the same manner as it would be if it were kept by a book-keeper on the estate. At the end of the year a currency trial balance is extracted, and after this has been agreed the conversion into sterling takes place.

Some companies working under this system make the conversions into sterling monthly, the chief advantage being that the expenditure to date in sterling appears in the books; consequently returns for the directors are easily compiled.

Most rubber companies have their estates in the Malay Peninsula, Ceylon, or the Dutch East Indies, where the rate

of exchange is stable. Conversion into sterling of the trial balance items is therefore with one exception made at a standard rate, *e.g.*, £1=2s. 4d. The exception is the remittances account, which is converted at the actual sterling cost of the remittances, as shown in the head office books. The difference on the sterling trial balance will therefore be the difference between the remittances converted at the fixed rate and at the actual rate, and will be written off to difference in exchange. This item is usually very small.

One finds in practice some slight modifications of the system.

The monthly analysis of expenditure is not always journalised, the ledger postings frequently being made direct from the analysis on which the ledger folios are endorsed. This method has much to recommend it—the very lengthy journal entry to record the monthly expenditure in detail (perhaps 40 or 50 items) is dispensed with, and there is no risk of error in making the journal entry as the posting is made from the original statement. At any point there is a check on the total debit to each account by reference to the total column of the monthly analysis sheet. It must be admitted, however, that this is contrary to one of the cardinal rules of double entry book-keeping, which does not allow a posting to be made to the ledger except from a book of original entry. It is submitted that the saving of time and the smaller possibility of errors justify this departure from the rules, especially as it is the practice to bind and retain each year's analysis sheets.

At the close of the period various adjustments have to be made, whether the accounts have been kept on a cash or an income and expenditure basis. Under the cash system, all outstanding debts due by or to the estate must be brought into account, in addition to the ordinary apportionments, *e.g.*, rent accrued and insurances paid in advance. If a proper income and expenditure system is in force it will of course only be necessary to deal with the apportionments.

If a separate ledger is kept for the estate transactions, either on the estate or at the head office, the closing entries will present no difficulty as they follow the ordinary principles of branch accounts. The latter are usually closed in accordance with one of the following methods:—

- (a) Where trading and profit and loss accounts are prepared by the branch the various revenue items are closed off to these accounts, the balance being transferred to the credit or debit of the head office account according to whether a profit or loss has been made.
- (b) Where final accounts are not prepared at the branch, but a trial balance is forwarded to the head office, there is no trading or profit and loss account to which the revenue items in the branch books can be transferred. These accounts must therefore be closed off to the head office account. The effect of this entry is to credit head office account with its profit, and this can be proved by finding the difference between the debit and credit totals of the closing entries, which will agree with the profit and loss balance.

Plantation companies close their accounts under the latter method, as the estate accounts only contain a record of part of the company's operations.

The fixed assets of a trading branch which keeps its own books are frequently recorded in those books, and the balance standing to the credit of the head office is the excess of assets over liabilities at that branch, in other words its capital. The fixed assets of plantation companies usually appear in the

head office books, and therefore all capital expenditure during the year must be transferred to the head office. The result is that the only balance on the head office account in the foreign ledger will be the difference between the following assets and liabilities appearing in that ledger.

<i>Assets.</i>	<i>Liabilities.</i>
Cash.	
Debtors (if any).	
Stock of rice.	Sundry creditors.
Stores on hand.	
Payments in advance.	

#### FINANCE.

As a great deal of the stock is disposed of in London, although there are markets at Singapore and Colombo, it follows that the cash to pay the cost of cultivation is usually provided from the head office. The methods of remittance adopted are:—

- (1) By telegraphic transfer, or
- (2) By bill drawn by the manager or agents on London, and discounted.

#### HEAD OFFICE BOOKS.

Apart from the statutory books required by the Companies Acts, the only books of importance kept by a plantation company are:—

- (1) Stock book.
- (2) Sales book.
- (3) Cash book.
- (4) Ledger.

The stock book, which is entered from the manager's statement of shipments, gives detailed particulars of the produce shipped, and shows how it is disposed of. Notes are often made in this book of the name of the boat, dates of receipt and despatch of bills of lading, and the report as to the quality.

The sales book usually shows the weight of each consignment and the weight sold. There is always a difference between these two figures due to the rubber drying after shipment, or to the fact that a sample is taken from each chest of tea. The difference, however, should not exceed  $\frac{1}{2}$  per cent. for rubber and 1 per cent. for tea. The details of the sales are entered from the brokers' account sales, and one usually finds the book ruled with columns for gross amount, shipping and dock charges, brokerage, total deductions, and net amount realised.

The gross amount is credited in total to sales account, the charges and brokerage are debited (also in total) to their respective accounts, and the net amount realised is debited in detail to a personal account with the brokers. If desired, the latter can be debited with the gross amount and credited with the charges.

In addition to the items just mentioned the ledger contains accounts for the following:—

- (a) Remittances to plantation (sometimes called manager's cash account).
- (b) London office expenses (various accounts).
- (c) Crop account.
- (d) Profit and loss account.
- (e) Fixed assets on estate.
- (f) Stock.
- (g) Investments.
- (h) Capital and reserves.

Where a separate foreign ledger is kept either on the estate or at the head office, the credit balance of the head office remittances account in that ledger will have been converted



at the sterling figure standing to the debit of the remittances account in the London books, and therefore the two items can be cancelled.

It sometimes happens that the head office makes a purchase in this country on behalf of the estate. With some companies it is the practice to add the expenditure to the estate final figures for the year. Although there is no serious objection to this method as regards capital items, it is considered that revenue expenditure should be reported to the manager and passed through his accounts in the ordinary way, in order that when he prepares his annual report, his figures and the deductions drawn therefrom may not require revision when they reach the head office. Where this system is followed the amounts paid are treated as ordinary remittances by the head office to the manager. The latter then includes the amount (converted at the fixed rate) on both sides of his next monthly account.

When drawing up a revenue account it is usual to divide it into two parts: crop account and profit and loss account. The former shows all expenditure incurred abroad, and therefore includes a great many items which ordinarily appear in the profit and loss account. The latter account only includes selling charges, London office expenses and directors' fees.

#### REPORTS TO DIRECTORS.

Where only one commodity is produced, the preparation of monthly statistics is facilitated. The following is a summary of a secretary's report:—

- 1.—Statement of receipts and payments at head office since last meeting, with bank reconciliation and certificate of balance.
- 2.—List of cheques for signature.
- 3.—Sales made since last report, with average price realised—
  - (a) In open market.
  - (b) Under existing contracts.
- 4.—Crop statement—
 

(a) Crop for—months previously reported ..	Crop sold ..
(b) Crop for month ..	Shrinkage of same ..
	Stock—
	In London
	In transit.
	On Estate.

Note.—Standard production allowed to date. lbs.

- 5.—Stock available for disposal, with particulars of amounts required for forward contracts.
- 6.—Average cost per lb. of crop to date. (Ascertained by dividing output into estate expenditure.)

#### 7.— Profit Statement.

PREVIOUS YEAR.			CURRENT YEAR.		
Weight.	Average Price.	Amount.	Weight.	Average Price.	Amount.
		Proceeds of Crop sold .. ..			
		Less Cost of same f.o.b. .. ..			
		Shipping Charges and Brokerage ..			
		Gross Profit on Crop sold ..			

If the directors desire to make estimates of the total profit, the crop statement will give them the quantity not sold, and by deducting average cost per lb. from market price they can

arrive at the estimated profit, which, however, may never be realised owing to a fall in the price of the commodity before the stock reaches the market.

#### THE AUDIT PROGRAMME.

The audit programme depends upon whether the manager's expenditure has been audited by a local accountant, or has been scrutinised by the company's agents. There are a number of firms in the East who specialise in estate management and supervision, and where they are employed the manager is relieved of considerable responsibility. The scope of their supervision varies according to the wishes of the companies by whom they are employed. In some cases they deal only with the field work, in others they also examine and criticise the expenditure. Where local sales are made, they are responsible; they may even control the expenditure and pay all accounts with the exception of wages and petty expenses, the cash for which they advance to the manager.

The following programme is suggested:—

- 1.—If no local audit, vouch the expenditure as shown in the copy of the cash book sent over, cast the latter, and see that the total expenditure agrees with the monthly analysis.
- 2.—Check the postings from the monthly analysis to the foreign ledger.
- 3.—Scrutinise the expenditure charged to capital.
- 4.—Check the extraction of the currency trial balance.
- 5.—Check the conversion into sterling.

The difference between the two sets of sterling figures is the difference on exchange, and is usually carried to the profit and loss account. Where, however, the amount is considerable it is advisable to apportion it *pro rata* over the various items of expenditure, particularly where capital work is being done.

- 6.—Check shipments of rubber as certified by the manager into stock book.
- 7.—Vouch the entries in the sales book (both as regards quality and amount) with the brokers' sale notes.
- 8.—Prepare crop reconciliation.

	lbs.		lbs.
Stock at commencement of year:—		Sales as per sales book.	
On Estate. ..		Shrinkage. .. ..	
In transit ..		Stock at end of year:—	
In London ..		On Estate .. ..	
Final crop for year as per annual report.		In transit .. ..	
		In London .. ..	

- 9.—On agreeing the quantity of stock, ascertain by reference to the sales made since the date of the balance-sheet and to the present market price whether the amount taken credit for is likely to be realised.

- 10.—Vouch London office expenditure, check extraction of trial balance, ascertain that all outstanding have been included, and check the final accounts.

- 11.—Verify the existence of the assets.

With the exception of some of the receipts for stores which are satisfactory, the value of the vouchers for payments made, particularly those to coolies for small purchases and allowances, is very doubtful. As the coolies cannot write, they make their mark, or put their thumb on a stamp pad and make an impression on the receipt, which is witnessed by the clerk. It is to be feared that a false "receipt" can easily be

provided. It should be noted, however, that the audit certificate usually contains the statement that the manager's returns have been examined, and that they have been correctly incorporated in the head office books, thus disclaiming responsibility for vouching.

A further qualification is usually needed, to the effect that a certificate has been obtained from the local bank stating that they hold the deeds of the estate free of any charge.

#### INCOME TAX.

Several cases dealing with plantation companies have been before the Courts, the most important of which is *Vallambrosa Rubber Company, Limited, v. Farmer*, which was decided in 1910.

The Revenue Authorities wished to add back to the profits part of the expenditure on estate management and allowances, weeding, medical expenses, cutting out trees (where planted too close together), and nurseries, on the ground that only one-seventh of the estate was mature. The company objected, and the Court decided that as the expenditure was of a recurring nature it should be allowed. In the course of the judgment it was said:—

"In a rough way it was not a bad criterion as between capital and income to say that capital expenditure was a thing that was to be spent once for all, and income expenditure was a thing which was going to recur every year."

This expenditure did not add to the value of the asset, but was necessary to maintain its value. The important point is that this expenditure may be charged to capital in the accounts and yet be allowed for income tax purposes.

Another item which is allowed in practice is the cost of the very temporary buildings which, owing to the climate and the insects, require renewal every two or three years.

Another case is *Tebrau (Johore) Rubber Syndicate, Limited, v. Farmer* (1910), where a rubber company, finding that its capital was insufficient to develop an estate, sold it at a profit to a new company for shares. Power was taken in the memorandum to sell the property, and the prospectus showed that it was considered that a sale might be necessary, but in spite of this it was held that the profit was a capital accretion, as the company did not deal in land, its main object being to develop the estate.

The following items are also allowed:—Losses of cash advanced to coolies who die, or break their contracts ("bolters" they are called), losses on rice; rice is usually supplied to the coolies at cost price, or at cost with a fixed maximum. As the cost of rice is an important factor in determining rates of wages, any loss on this account can be regarded as additional wages.

#### Discussion.

The CHAIRMAN called upon Mr. J. S. Brittain who, he said, had practised for many years in the Far East in connection with the rubber industry, to open the discussion.

Mr. J. S. BRITTAIN: When I came here to-night I did not expect that I should be called upon to make any remarks. I think our Lecturer has covered the ground very well, but I thought he would probably make some remarks with regard to the apportionment of expenditure on the other side as between capital and revenue. With regard to direct expenditure such as weeding expenses, pests and diseases, drainage and other such works, the estates are very often worked by dividing them up into fields of regular size—say 10 or 20 acres—and, if it is a new field with young planted rubber, of course the upkeep of that field is capital. On the other hand, if there is a certain percentage of trees in a field which are in tapping, the up-keep expense is revenue. There are many different systems of apportioning these expenses, and of course the ideas of directors on this side

vary quite considerably as to what should be done. Then there is the question of general charges, such as the salaries of the manager and his assistants, the rent, general transport, and items of that sort; those are usually divided between capital and revenue where you have an estate which is partly immature and partly mature. My experience has been that they are very frequently divided on what is called a labour basis; that is to say, you have a total expense on wages for a month, part of which has been expended on capital work—the upkeep of immature rubber—and the other part has been expended in the upkeep of the mature area and for other revenue purposes. You arrive at the respective percentages to the total labour cost, and you divide the total general charges according to such percentages, part going to capital and part to revenue. The Lecturer mentioned the question of exchange. With regard to companies in Malaya, it is quite true that they frequently work on the fixed rate of 2s. 4d. On the other hand, I find many companies take the average rate of exchange for the year. The result of taking the average rate is that you minimise the amount to be dealt with as "difference in exchange" at the end of the year. Then the Lecturer referred to the managers of these estates not being expert book-keepers. That is quite true, but I have found that the native book-keepers—the Chinese and Singalese—are really very good book-keepers, and frequently know a good deal more about the books than the manager himself. I have also in the course of my auditing experience on the other side, come across some of those matters to which the Lecturer referred—filling in dummy names in the pay-roll and that sort of thing. These points of course have to be watched so far as the local audit is concerned. There is also, from the point of view of the local auditor, the question mentioned by the Lecturer as to whether the manager has an interest in an adjoining plantation. That is a point which we must always keep before us when we are engaged on local audits. With regard to the London accounts, my experience generally is that companies do not take up their estate expenditure monthly, but they wait until the end of the year and then take up the total expenditure as shown by the last monthly return received from the manager. This saves a good deal of trouble, and particularly if the accounts have been audited on the other side, it seems to me that that is all that is really necessary.

Mr. S. E. STRAKER: I should be glad if the Lecturer would inform us how he would verify advances to coolies. Frequently one finds an item in the balance-sheet "advances to coolies," and it would appear that some of those advances may not be good, and probably are not good as coolies are continually changing on the estates.

Mr. SCOTT-MOORE: I was interested to hear the Lecturer say that on these estates abroad they use combined time and wages books. Such books are not yet in common use in this country; most businesses make out a time book or a time sheet and then laboriously copy it on to the wages sheet. I did not notice very much in the Lecturer's remarks about stock accounts, but he did mention the question of standard output in comparison with actual output. Apart from that, however, I should be glad to know if there is any definite check.

Mr. COHEN: I would like to ask the Lecturer whether anything in the nature of a cost account is kept.

Mr. ADDISON: I should like to ask the Lecturer his opinion as to the best method of verifying capital expenditure and revenue expenditure. It is quite conceivable that a company that was not doing very well might want the position to appear better than it actually was, and in consequence revenue expenditure might be put to capital. It seems to me that expenditure on capital might cover a lot of doubtful items.

Mr. DE RUETT: With regard to unsold stocks, it is the practice of most tea companies to dispose of their tea (which has been produced by the estate up to the end of November) between July and the following June, when it can be brought into the accounts at the real value which it has realised. Personally, I dislike estimating the value of unsold portion of a crop, if it can possibly be avoided. At times its value may be very much appreciated and it is found that the profit has been underestimated. Then when you come before the surveyor of taxes and he sees that it has turned out a much larger figure in the end, he looks rather suspiciously at you. As to capital expenditure and revenue expenditure, the general practice is



to charge the whole of the new machinery to revenue, and also the buildings. That, of course, places a company in a strong financial position. The extraordinary part about it is that many companies, whose estates are fully equipped and in a high state of cultivation, use to value them at £20 an acre, but their real value should be in the neighbourhood of £100 per acre. In manufacturing tea, conditions alter so extensively that rolling and drying machines, after being in use four or five years, may be superseded by others which can turn the work out more effectively. The great difficulty in recent years is in respect to labour. I have found it very difficult to persuade the surveyor of taxes that the more general use of machinery has enabled the estates to economise labour. We charge the cost of recruiting coolie labour to revenue, but when we purchase a sorting or drying machine, or anything of that kind, they say that that is capital expenditure. There are many difficulties which crop up as regards depreciation and obsolescence. The Lecturer has referred to the integrity of the managers and their assistants. You must trust the men. It is practically impossible, with a big labour staff, such as some companies have—some thousands of coolies—it is practically impossible to avoid some little leakage somewhere. The responsible European managers and assistants are above suspicion. They get let down occasionally by the natives, but as a rule we find that the men are thoroughly reliable. It may interest you to know, in connection with labour, that in plucking tea, leaf by leaf has to be picked off the bushes at weekly intervals, and for every pound of green leaf picked you only get a quarter of a pound of dry tea. When you consider that some crops run into five to ten millions of pounds, you can understand the amount of work involved.

The CHAIRMAN: I do not know that I am competent to discuss this subject at all, but I can only suggest two possible omissions from Mr. Braddy's paper. One was that he did not explain what particular interpretation was placed on the terms "medicine" or "medical stores." I can imagine it might be quite a generous, or hospital interpretation on a rubber estate. (Laughter.) I think we might also have been given some "tip" straight from the stable as to what is likely to be the course of rubber in the near future. (Laughter.) At any rate we know that it is the product of British enterprise, carried out under extraordinarily difficult conditions. There has been a good deal of discussion on the effects of the Stevenson scheme, but I rather gathered from what Mr. Brittain told me some time ago, that at one time it saved the rubber industry from something near disaster. As to whether its secondary effects are beneficial, that remains to be seen. Last week the Press announced that the output of Dutch plantations would not come within the restriction scheme, which is greatly to the detriment of the British output. But the Stevenson scheme, or any scheme, does show the need for accounting, and, more particularly, as such accounting will tend to minimise the risks of what is necessarily a fluctuating industry. We have also seen a statement that a very large enterprise financed with American capital is to be started in West Africa. I remember, some years ago, when on leave during the war, going through the Tanganyika territory, where there were some rubber estates. They were all derelict, and I was told that for some technical reason or other they had been anything but a success. I will say this, however, that as regards the rubber industry in the East and the professional opportunities that arise there for accountants, it is a most promising field for young and enterprising Incorporated Accountants who have a taste for Eastern life and are imbued with the spirit of adventure. I will now ask Mr. Braddy to reply to the questions.

Mr. BRADDY: I was greatly interested in Mr. Brittain's remarks, and I can assure him I have learned a considerable amount from what he has told us concerning the methods in the East. With regard to his point about the book-keepers, I have seen some very good copying work turned out by Chinese book-keepers; but might I ask Mr. Brittain if they are capable of deciding a question of principle between capital and revenue?

Mr. BRITTAIN: I do not say they would be allowed to do that, but many of them have a very good knowledge.

Mr. BRADDY: With regard to accounts in London, in the case of Ceylon tea companies and one or two Indian companies, I have seen the system of only taking up the

expenditure at the end of the year. In that case they get the total expenditure for the year in one item, which is credited to the manager's cash account. If any details are required of this expenditure, an analysis can be obtained from the manager's monthly sheets. In the case of two or three rubber companies I have audited, they do record the expenditure under each of about 20 headings in the London books from month to month. Mr. Straker raised the question about the advances to coolies appearing in balance-sheets. This item arises through payments being made to the coolies when they are first recruited, or, in some cases, where they are unable to work owing to illness. The advances are usually recovered by deduction, but only the totals appear in the London books, the details being kept by the manager. I remember that in Ceylon—I think it was in 1921—it became illegal to saddle the coolies with these debts. The Government passed an Act which prevented the recovery of the debts, with the result that the companies had to write them off. Of course there were always amounts which had to be written off, owing to death, or to the coolies bolting, but one had to rely on the manager to keep the advances account in order. Mr. Scott-Moore asked for details as regards stock accounts. I do not know whether a daily record is kept in the East of the rubber and tea brought in, but the only information which comes to London, as far as I know, is the monthly stock account certified by the manager. He reports the crop for the month at so much, and the auditor sees that this quantity is accounted for. I can quite see the possibility of rubber or tea being sold locally and the proceeds not reaching the company, and I mentioned the point as one of the loopholes for a dishonest manager. Of course the manager might be perfectly honest, and the local sales might be made by some of the coolies. Mr. Cohen raised the question as to whether any cost accounts were kept. So far as I am aware, the only method of obtaining the costs is by dividing the expenditure under the various headings by the amount of the crop. This can be done throughout the year. The only other items to add are the shipping charges and the London office expenses. If you want to know the estate cost of production for the year, all that is necessary is to divide your total crop into your total estate expenditure. Mr. Addison asked how the auditor could detect revenue expenditure charged to capital. This is another case where one has to rely to a great extent on the manager, but a very rough check can be placed on his apportionments as the auditor is in a position to know the total of the mature area and of the immature area. If he sees that the expenditure, say, on labour, in the capital area is very heavy, it might arouse his suspicions. My experience is that the tendency is to charge as much as possible to revenue. For example, I know of some well-established companies which are planting up new areas, do not charge any of the manager's salary to capital. There is something to be said for this practice. When once the manager's full salary has been a revenue charge, it does not seem sound to reduce the revenue charge simply because a new area is planted. Of course, if a fresh assistant has been engaged, then I agree that something should be charged to capital. Can you tell us, Mr. Brittain, whether there are any means of detecting revenue expenditure wrongly charged to capital?

Mr. BRITTAIN: Only by an examination of the books locally.

Mr. BRADDY: One does not get very much in the way of vouchers over here, except for accounts for stores. Most of them are slips certified by the manager, witnessed by a clerk and with a thumb print or mark on them.

Mr. BRITTAIN: Where you have a large staff and several assistants on an estate, you can introduce a system of internal check which would bring any such irregularities to light.

Mr. BRADDY: You have to rely on the manager. As regards wages, Mr. Brittain has mentioned that two of the assistants are there who can witness the payments, much the same as is done in this country. There is a pay clerk and a witness, and they both sign a declaration that the wages have been paid. Mr. De Russett also gave us a lot of information concerning the methods adopted by tea companies. I should like to ask him, with regard to machinery being charged to revenue, whether that refers to the replacement of the original machines? I suppose the original machines were

charged to capital and all replacements since have been charged to revenue. Did I understand that correctly?

Mr. DE RUSSETT: The Income Tax Authorities will allow ordinary repairs, but renewals as a rule they will only allow about two-thirds of. Where a steam engine is replaced by an oil engine, and things of that kind, the position is different. My experience is that the revenue authorities are very reasonable, and will listen to arguments of that kind and generally meet you. The same with regard to buildings; as a rule they allow you one-third for revenue, and the balance is treated as capital expenditure if coolie lines and manufacturing buildings are replaced with those of a more permanent and substantial character.

Mr. BRADY: With regard to the point about the stock in the case of the Ceylon tea companies whose crop year ends in June, but who adopt the system of closing their London books three months later, the result is that by the time the 30th September comes the greater portion of the tea crop has been sold, and by the time the audit is done usually the whole of it has been sold.

Mr. BRITAIN proposed and Mr. SCOTT-MOORE seconded a vote of thanks to the Lecturer, and a similar vote was accorded to Mr. Garrett for presiding.

## District Societies of Incorporated Accountants.

### SOUTH WALES AND MONMOUTHSHIRE.

A lecture was given to the South Wales and Monmouthshire District Society of Incorporated Accountants and Auditors, at the Lesser City Hall, Cardiff, on Thursday, January 26th, 1928, by Capt. R. T. Evans, on "Depreciation of the French Currency and its Reaction on the South Wales Coal Trade."

The President, Mr. J. Pearson Griffiths, F.S.A.A., was supported by Mr. E. Mills, F.S.A.A. (Vice-President), Mr. John Allcock, F.S.A.A., Mr. Wilson Bartlett, F.S.A.A., Mr. T. N. T. David, F.S.A.A., Mr. P. A. Hayes, F.S.A.A., Mr. G. E. S. Heyburne, F.S.A.A., Mr. W. J. Pallot, F.S.A.A., Mr. C. T. Stephens, F.S.A.A., Mr. R. C. L. Thomas, F.S.A.A., Mr. Percy H. Walker, F.S.A.A. (Hon. Secretary), and a number of other members and visitors.

Capt. Evans said that the subject was not of his choosing. He was asked to come and talk to a number of people interested both in the problems of foreign exchange and of coal exporting, and help explain what is popularly supposed to be an unusually intricate question. He warned his hearers against the danger of over emphasis which might result from isolating the currency problem for detailed treatment. It certainly has a tremendously potent influence on the condition of industry, but there are other factors also, and they should be given their place in any complete account of the causation of industrial depression. Particularly is this necessary when dealing with the coal industry. The main cause of the post-war dislocation of the exchanges was, of course, inflation. By inflation he meant the issue or creation by a Government upon its own credit of extra supplies of currency for the purpose of meeting any part of its own expenditure. Governments can meet their monetary needs by (a) borrowing, (b) taxation, (c) creating a fiduciary paper currency, and during the war, in varying degrees, they did so. But after the war also most of the European countries continued to increase their volume of credit and currency. In Great Britain this policy was pursued until the end of 1920, since which time financial policy has been governed by the recommendation of the Cunliffe Report and a process of steady deflation carried out. On the 1st January, 1919, our total circulation of note, bank and treasury, was over £393 millions. By the end of December, 1920, it had been increased to £478 millions. At the end of 1921 it had been deflated to £131 millions, and by December, 1926, the volume had contracted to less than £380 millions. That the launching of this new policy of rapidly contracting legal tender currency should have synchronised with the beginning of our industrial depression was not an accident, and it is important that we should fully realise the causal relationship between the two events.

In France continuous inflation was arrested during 1921 and 1922, but since then up to the end of 1926 the volume of paper currency issued by the Bank of France against loans to the State increased enormously. Taking 100 as the index for 1914, the fiduciary circulation at the end of 1922 was represented by 374 and each succeeding year we find it increasing from 390 in 1923 to 546 at the end of 1926. That unprecedented industrial expansion in France took place contemporaneously with this inflation was equally not accidental.

To see clearly the reactions upon industry of an abnormal increase of credit and currency, that is of inflation or of the opposite process, deflation, we must understand how the quantity of effective purchasing power and price levels stand in relation one to the other, for prices are the chief connecting link between financial policy and trade activity. Both economic theory and experience demonstrate that an increase in the quantity of money unaccompanied by an increase in the quantity of goods tends to raise prices, while a decrease in the quantity of money unaccompanied by a decrease in the quantity of goods tends to lower prices; or, put in another way, inflation lowers the purchasing value of money, and deflation raises it. It will be remembered that in some countries, Russia and Germany, for example, through excess of issue, the value of the rouble and the mark declined to that of waste paper. In this country the rise in prices, when unchecked by Government control, showed a general conformity with the issue of notes with a three months' lag. Those with practical experience of business know how prices depend on demand and supply, and how the demand for commodities is bound to increase when the great mass of people have placed in their hands more and more purchasing power. They know, too, how increased willingness and capacity to buy will react on prices.

Coming to the disturbances in the foreign exchanges, the general rise of prices in a country associated with inflation of credit and currency is the same thing as a general depreciation of that country's monetary unit. Inflation in France led to a depreciation in the purchasing value of the franc. Under normal conditions of trade the general levels of prices in the different countries that are effectively on the gold standard tend to conform to the general world level of prices. With the abandonment of the gold standard there was no adequate regulator of comparative prices, and the purchasing value of one monetary unit in terms of another would depend on a variety of conditions linked up with the different currency policies of the countries concerned. France continued inflating while we were deflating, and so caused a greater depreciation in the franc in terms of sterling. This gave her manufacturers a much stronger position as exporters.

Depreciation encourages exports and discourages imports. For a French merchant to import South Wales coal would require that he should buy sterling to pay for it. But the pound in terms of francs was dear, for the quoted rate of exchange did not reflect the purchasing power of francs in France. Prices in a country do not keep pace with either a fall or rise in exchange. This element of time is an important consideration. When the exchange became more and more unfavourable to France it paid us to buy in that country for, by taking advantage at a given moment of the difference between the internal purchasing power of the franc and its relatively lower exchange value in terms of sterling, some very good bargains were possible. South Wales exporters of coal to France, in common with all other exporters, therefore suffered. A relevant example to show how internal prices in a depreciated exchange bear very little relation to world prices is that of the French Government selling reparation coal at a figure far below the current world price. One case was cited before the Samuel Commission. During the twelve months September, 1924, to August, 1925, the Government sold reparation coal at a fixed price of 87 francs per ton throughout that period. The franc varied a good deal during the time and whereas at the beginning of the period that sum was equivalent to £1 sterling, later it was not more than 15s., and that was the selling price f.o.b. Rotterdam, Antwerp and Ghent.

Of course we have, on the other hand, to bear in mind that indirectly depreciation in France to a certain extent benefitted the coal trade, because it stimulated an enormous industrial activity which increased considerably French consumption of



coal, and therefore, despite the big reparation deliveries, our export trade was less badly hit than was at one time feared probable.

The restoration of the gold standard in 1925, with consequent appreciation of sterling, affected the flow of trade in much the same way as deflation. No one who understands the matter denies that for some time at any rate the re-imposition of gold is attended by serious consequences. Export trade is bound to suffer, for as our currency appreciates, foreign countries find it increasingly difficult to buy our goods. On the other hand, we are able to buy from abroad more cheaply our food and raw materials, and all other goods we import cost us less than they would otherwise. Whether you agree with the policy depends on the nature of your business interests. If you are a farmer or a coal exporter you will certainly disagree with it. To strike a balance between the advantages and disadvantages to the nation as a whole, however, is not easy. But that it has hit agriculture and the exporting industries a hard blow, is beyond question.

Many interesting questions were raised, to which Capt. Evans replied in a comprehensive and able manner.

A vote of thanks to the Lecturer was proposed by Mr. G. E. S. Heybyrne, and seconded by Mr. John Allcock.

#### CARDIFF AND DISTRICT STUDENTS' SECTION.

Members of the Cardiff and District Students' Section assembled at Cardiff on February 9th, to hear a lecture delivered by Mr. W. A. Stewart Jones, F.R.Econ.S. (of the City Treasurer's Office, Cardiff), on "Cost Accounts—How to Apportion Nominal Charges." Mr. Owen I. Thomas, A.S.A.A., presided, and was supported by Mr. John Allcock, F.S.A.A. (City Treasurer and Controller), Mr. J. Pearson Griffiths, F.S.A.A. (President of the District Society), Mr. F. J. Alban, F.S.A.A., Mr. L. R. Williams, F.S.A.A., Mr. W. I. Rodda, A.S.A.A., and Mr. J. Alun Evans (Hon. Secretary of the Students' Section); also a good attendance of students. The Lecturer dealt at length with his subject and submitted excellent charts and schedules. Mr. Stewart Jones, who has held the position of cost accountant to a large engineering firm, showed an excellent acquaintance with his subject. An interesting discussion followed, in which particular reference was made to the municipal costing system at the City Hall, Cardiff. The meeting concluded with a hearty vote of thanks to the Lecturer, proposed by Mr. John Allcock, who, in doing so, congratulated Mr. Jones on the lecture, and seconded by Mr. Ivor Davies.

#### WEST OF ENGLAND.

##### Annual Report.

Your Committee have pleasure in presenting the report of the work of the Society, together with the audited accounts and balance-sheet for the year ended December 31st, 1927.

##### MEMBERSHIP.

During the year two new members were elected. Resignations, due to removal from the district, were received from five members, and the total membership is now 64, made up as follows:—20 Fellows, 23 Associates, and 21 students.

##### LECTURES.

The following lectures were given:—

- Jan. 10th. "Loss of Profits Insurance," by Mr. S. A. F. Kepple, A.C.I.I.
- Jan. 24th. "Bankruptcy," by Mr. E. Miles Taylor, F.C.A.
- Jan. 31st. "Education and Registration for the Profession," by Mr. W. Holman, F.S.A.A.
- Feb. 7th. "The Nature and Formation of Contract," by Dr. A. W. Peake, Barrister-at-Law.
- Nov. 14th. "Evolution of Industry," by Mr. A. E. Pugh, F.S.A.A., F.R.Econ.S.
- Nov. 28th. "Prospectus Law," by Dr. A. W. Peake, Barrister-at-Law.
- Dec. 12th. "Income Tax with Special Reference to the Finance Acts, 1926 and 1927," by Mr. C. W. Legge, F.S.A.A.

Your Committee are pleased to report that the attendances were satisfactory.

##### LIBRARY.

The use made of the library shows that it continues to fulfil a beneficial purpose. Several new books were added during the year.

##### EXAMINATIONS.

Two student members were successful at the Society's Final examination, and three at the Intermediate examination.

##### CONFERENCES.

Your Secretary represented the Society at conferences held in London, March 3rd, May 20th and December 9th, to consider proposals for the improvement of District Societies' organisation. The scheme has been approved by the Council, and will be submitted at the annual meeting to be held in London in May next.

##### COMMITTEE.

The retiring members of the Committee are Mr. H. M. B. Ker, Mr. F. P. Leach and Mr. F. W. Prosser, who are eligible for re-election. In accordance with Rule 4, nominations for election to the Committee must be signed by two members of the Society and lodged with the Secretary three clear days before the (annual) meeting.

#### YORKSHIRE.

The seventh meeting of the present session dealt with mock income tax appeals, brought forward by members.

The President (Mr. J. W. Carter, F.S.A.A.) acted as Chairman of the Board of Commissioners, composed of Mr. Wm. Walker, A.S.A.A., Mr. A. H. M. Crump, A.S.A.A., Mr. H. Derrick, A.S.A.A., and Mr. C. H. Goldthorpe, A.S.A.A., while Mr. S. H. Waller acted as Clerk to the Commissioners.

Case No. 1.—The Glow-warm Bricquette Company, Accountant, Mr. R. Dunwell, A.S.A.A.

Case No. 2.—Mr. John Pickles, Woollen Manufacturer. Accountant, Mr. H. Threlfall, A.S.A.A., Dewsbury.

Case No. 3.—John Brown, Market Salesman. Accountant, Mr. T. W. Dresser, F.S.A.A.

Discussions took place after the hearing of each case by the members present, and the meeting terminated with a hearty vote of thanks to the Chairman and those taking part in the proceedings.

#### STAFF DINNER.

Messrs. Walter Hunter, Bartlett & Co., Incorporated Accountants, Newport, Cardiff and London, held their annual staff dinner at the Queen's Hotel, Newport, on January 31st, when a number of past and all the present members of the staff were in attendance.

After the toast of "The King" Mr. R. C. L. Thomas, F.S.A.A., proposed the toast of "The Visitors," and said how pleased everyone was to see, amongst others present, Mr. J. Pearson Griffiths, F.S.A.A., the President of the South Wales and Monmouthshire District Society of Incorporated Accountants.

Mr. J. Pearson Griffiths, responding to the toast, said it gave him great pleasure to be at the staff dinner, and congratulated Mr. R. Wilson Bartlett on his election as President of the Newport Chamber of Commerce for the present year.

Mr. F. J. Notley, A.S.A.A., proposed the toast of "The Firm," to which Mr. R. Wilson Bartlett, F.S.A.A., replied, and, amongst other remarks, mentioned that the examination successes of members of the staff during the past year had been satisfactory as Mr. R. A. B. Heard had passed his Final examination of the Society, and Mr. R. C. Glendenning had advanced another stage in his Final B.Com. (London) examination.

After one or two of the other visitors present had spoken, the party proceeded to the Lyceum Theatre to see "The Blue Mazurka."

## Reviews.

**Income Tax, Super-Tax and Sur-Tax.** By Victor Walton, F.C.A. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2. (220 pp. Price 7s. 6d. net.)

The new laws with regard to Income Tax, Super-Tax and Sur-Tax embodied in the Finance Act, 1927, are the subject of this publication, the various provisions being discussed in detail and examples given showing the working out of the principles involved. The book deals comprehensively with the whole matter and is the first attempt to go fully into the subject which has come under our notice. As the new provisions take effect in April next, accountants will do well to make themselves acquainted with all the circumstances, and in this book they will find valuable assistance.

**Principles and Practice of Auditing.** By Joseph Lancaster, A.C.A. London: The Gregg Publishing Company, Limited, 36/38, Kingsway, W.C.2. (366 pp. Price 10s. 6d. net.)

The object of the author is to provide an up-to-date text book for the use of accountancy students, which shall at the same time be of service to practising accountants. The book is divided into three parts. The first deals with the auditor's appointment and remuneration, rights, duties and liabilities. The second describes the order of procedure and the third discusses investigations and reports. Specimen audit programmes for different classes of undertakings are given in the appendix—a very useful feature. The book is well produced and the matter conveniently classified. Everything is dealt with briefly and in simple language.

**The Secretary's Manual on the Law and Practice of Joint Stock Companies.** Twentieth Edition. By Judge Haydon, M.A., K.C., and Sir Gilbert Garnsey, K.B.E., F.C.A., London: Jordan & Sons, Limited, 116/118, Chancery Lane, W.C.2. (438 pp. Price 7s. 6d. net.)

This well-known and comprehensive book deals with the whole of the duties of a Company Secretary and many other matters besides. No changes in Company Law have taken place since the publication of the last edition, but the matter has been brought up-to-date by the incorporation of all recent decisions of the Courts with which secretaries of Public Companies require to be acquainted.

**Murray & Carter's Guide to Income Tax Practice.** Eleventh Edition. By Roger N. Carton, M. Com., F.C.A., London: Gee & Co. (Publishers), Limited, 6, Kirby Street, E.C.1. (544 pp. Price 30s. net.)

This book is already well-known to our readers and requires no extended notice. The new edition is compiled on the same lines as before, but the size of the book has been somewhat reduced by limiting the quotations from arguments and judgments in relation to cases decided in the Courts. The changes in the Income Tax law effected by the Income Tax Acts of 1926 and 1927, have necessitated some re-arrangement of the text and all decisions of importance have been fully dealt with.

**Accounts for Tailors and Clothiers.** By Chas. A. Metcalf, A.S.A.A. London: Gee & Co. (Publishers), Limited, 6, Kirby Street, E.C.1. (100 pp. Price 6s. net.)

Books dealing with accounts of particular trades or industries are always useful and this is the first publication we have noticed applicable to tailors and clothiers. It is designed by the author to be useful not only to professional accountants, but also to traders, and with this end in view it has been written in as simple form as possible with a number of rulings of books and full explanations and examples of the entries which should appear therein. Anyone concerned with the accounts of this particular trade will find much useful information in the book.

## Obituary.

JOHN GREGORY.

We regret to announce the death of Mr. John Gregory, Incorporated Accountant, 24, Norfolk Row, Sheffield, which occurred on February 9th. Mr. Gregory was an original Associate member of the Society and was elected a Fellow in 1924. In addition to his professional interests he was closely identified with the work of the Wesleyan body.

HOWARD BARTLETT MORRIS.

By the death of Mr. Howard Bartlett Morris, J.P., of the firm of Messrs. Howard Morris & Crocker, Portsmouth has lost a leading citizen and the Society a well known member. Mr. Morris had been in indifferent health for some time past and died in Egypt on February 21st. He was elected an Associate of the Society of Incorporated Accountants and Auditors in 1893 and a Fellow in 1896. He was appointed a Justice of the Peace in 1906 and for many years had acted as one of the Licensing Justices. For a considerable period Mr. Morris was one of the elective auditors to the Corporation of Portsmouth, but in recent years his firm succeeded him in the capacity of professional auditors. He was also auditor of the Portsmouth Gas Company and other well known concerns. He took a great interest in the Portsmouth Chamber of Commerce of which he was a past President.

## Scottish Notes.

(FROM OUR CORRESPONDENT.)

### Glasgow Students' Society.

The usual monthly meeting of the Glasgow Students' Society was held on 1st ult., when Mr. John Stirling, B.L., Incorporated Accountant, of the Scottish Board of Health, gave an address on "National Insurance." In the absence of Dr. Bell, Mr. James Paterson, Secretary of the Scottish Branch, presided over a large attendance. The Lecturer divided his subject into (a) a sketch of National Health and Pensions Insurance administration; and (b) an explanation of the advantages of voluntary insurance. Under the former heading he described generally the method of collecting the combined health and pensions contributions by the central department administering National Insurance, the functions of approved societies and insurance committees as regards the insured person, and their relationship to the central department, particularly from the accounting point of view, and touched briefly on investments, additional benefits, &c. With regard to the advantages of the voluntary insurance provisions of the Acts, the Lecturer pointed out that almost all professional men of the younger generation passed through a period of liability to compulsory insurance, on the cessation of which—e.g., on going into business for themselves, or into partnership, or on their salary passing beyond the £250 per annum limit—they had the option of becoming voluntary contributors. The benefits conferred were not substantial in amount, but were, he claimed, undoubtedly of much greater value in relation to the extremely small contribution payable than any life or sickness insurance policies on the market, and this was only possible because the superstructure of voluntary insurance was built on the sound foundation of the national scheme. He envisaged that with the passing of the years National Insurance would become more and more an accepted and normal feature of our social system, and that professional workers would, on ceasing to be compulsorily insured, elect to remain within the scheme as voluntary contributors as a matter of course and with no more compunction than they would show in entering into any ordinary contract of life or sickness assurance, using the benefits offered as the nucleus of as adequate a protection as they could afford for themselves and their dependents against the unforeseen contingencies and vicissitudes of life. At the close of the lecture a number of questions were put and answered.

### Air Force Accountants.

The method of making appointments under the accountants' branch of the Royal Air Force was dealt with by Squadron-Leader A. R. Thomas in the course of an address which he



gave on 1st ult. to the Incorporated Accountants' Students' Society of Glasgow, at which Mr. James Paterson, Secretary of the Scottish Branch, presided. The Lecturer said that in 1924, after consultation with the Institute of Chartered Accountants and the Society of Incorporated Accountants, the Air Ministry decided to obtain accountant officers for the Royal Air Force. He explained the duties, conditions, and salaries attached to the service, and said that these were such as should attract young accountants. The address was listened to attentively, and at the close several of the audience made further inquiries.

#### The Society's Year Book.

We are indebted to the *Hamilton Advertiser*, a weekly periodical with a large circulation in the County of Lanark, for complimentary references to the Society's Year Book for 1928. In the issue of 11th ult. the paper refers to the membership of the Society in Scotland's premier county, and goes on to say: "That 'Year Book' is a model of what similar productions should be if they are not, one of its special conveniences being the fact that at whatever section the volume is opened it easily remains open, a feature which all books of reference ought to possess. All of the multiplicity of types employed in the book are neat and clearly printed, and the binding in an attractive shade of blue, has been most efficiently done. The arrangement of the contents, totalling 850 pages, is excellent."

#### An Unfiled Agreement.

The Second Division of the Court of Session recently disposed of a petition for a Glasgow company formed in 1888 to acquire certain concessions abroad from the late Sir David Baird, Bart., of Urie. The share capital was £600,000, divided into 12,000 6 per cent. preference shares, and 48,000 ordinary shares of £10 each. In satisfaction of his claim Sir David Baird agreed to accept an allotment of 23,112 shares in place of cash, in payment of the balance of the purchase price. In respect that the original directors failed to enter into and file a formal agreement and contract adopting the preliminary contract and agreement, doubts had recently been raised as to the validity of the allotment and issue of these shares as fully paid up for all purposes. The company had been unable to obtain an official Stock Exchange quotation for the shares on account of the non-filing of any agreements in 1888, and the directors had deemed it desirable that steps should be taken to have all doubts removed. For this purpose the 39th ordinary general meeting of the shareholders approved of a scheme of arrangement providing that the 45,500 shares should be held to be and to have always been fully paid, for all purposes, as in fact they were. Sir J. Lorne McLeod, S.S.C., to whom the petition was remitted, reported in favour of the approval of the scheme. The Division granted the prayer of the petition.

#### Gold Standard—Is it Changing?

A paper was read a few weeks ago before the Scottish Society of Economists, in Edinburgh, by Mr. Charles M. Douglas, F.F.A., on "The Future Gold Production." In the course of his paper Mr. Douglas said that he could not get away from the feeling that whatever steps they might take to economise in the use of gold, there would always exist that ultimate fondness for the reservation of gold so long as it formed the international basis of credit among entirely independent nations—nations which were of necessity in competition one with another. He realised, however, that the gold standard of to-day was not the gold standard of yesterday. In fact, it showed every sign of evolving into something quite different, a standard which would no longer necessitate large reserves of gold, and one that would avoid the need for constant transferences of gold. It had already done away with the gold currency, while credit and currency were now controlled by means other than gold reserves. This latter he regarded as a natural sequence of the former, for it was only a paper currency that could be controlled by anything else than a gold reserve. No one could deny that economy was being practised by central banks and other authorities, and conditions suggested that the former need for large reserves was being reconsidered. Quite possibly the ultimate outcome of present tendencies would be to regulate all banking reserves in such a way that the aggregate amount would have some

real relation to the supplies available. In his opinion the day would come, and relatively soon, when central gold reserves for purely national purposes would be almost unnecessary and of very little importance. The real need for reserves then would be in the international sphere, reserves against credit in our commercial dealings with foreign nations, reserves against times of international crisis, when the existence of such reserves would provide a weapon to be launched on the world or withdrawn as occasion may demand.

## Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, e.g. (1925) 2 K.B.:

T.L.R., *Times Law Reports*; *The Times*, *The Times Newspaper*; L.J., *Law Journal*; L.J.N., *Law Journal Newspaper*; L.T., *Law Times*; L.T.N., *Law Times Newspaper*; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Sessions Cases (Scotland)*; S.L.T., *Scottish Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace (England)*; L.G.R., *Knight's Local Government Reports*; B. & C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; N.I., Northern Ireland; P., President of Probate, Divorce and Admiralty.]

#### INSOLVENCY.

##### In re Dominy.

*Solicitor Mixing Own and Clients' Money.*

A solicitor mixed his own and clients' money in one banking account, which at the date of the receiving order was in credit to the extent of £15 14s. The trustee reported to the Court that he had identified specific sums of clients' money amounting to £1,498 as having been paid into the account during a period of some six months immediately preceding the receiving order.

It was held that drawings from the account by the bankrupt must be deemed to be from his own money rather than that of his clients, and that the specific sums must be given over to the respective clients, the last sum paid in being the first to be paid over and so on until the fund was exhausted.

(C.C.; (1928) L.J.C.C.R., 3.)

##### Dewe v. Dewe.

*Effect of Bankruptcy on Liability to pay Sums under a Covenant.*

Where after a deed of separation a husband becomes bankrupt and the wife proves for the capitalised value of the allowance payable under the deed and receives a dividend, the husband nevertheless remains liable whether discharged or not to maintain his wife at common law.

(P.; (1928) L.J.N., 96.)

##### In re A Debtor (229 of 1927).

*Commission paid by Lender to Agent of Borrower.*

The debtor employed one L as his agent to negotiate a loan for him with a moneylender, who lent the debtor £60 on a promissory note for £100. Judgment was subsequently recovered against the debtor for the amount of the promissory note, and a bankruptcy notice was issued against him. This not being complied with, a bankruptcy petition was presented, on the hearing of which it appeared for the first time that a commission had been paid to L by the moneylender without the knowledge or consent of the debtor. A receiving order was made against the debtor.

It was held that the payment of the commission to L without the knowledge or consent of the debtor rendered the contract voidable, and that the act of bankruptcy being founded on a

contract which was voidable by the debtor, the Court ought not, within the meaning of sect. 5 (3) of the Bankruptcy Act, 1914, to be satisfied with the proof of the petitioning creditor's debt, and the receiving order must be rescinded.

(C.A.; (1927) 2 Ch., 367.)

#### In re Bueb.

##### *Appointment of Receiver by way of Equitable Execution.*

Clauston (J.) held that an order appointing a receiver by way of equitable execution does not entitle the judgment creditor to prove as a secured creditor under sect. 167 of the Bankruptcy Act, 1914.

(Ch.; (1927) L.J.N., 476.)

### LOCAL GOVERNMENT.

#### **Denny and Others v. Assessor for Stirlingshire.**

##### *Repayments of Principal and Interest of Sum borrowed to buy Waterworks.*

A town council, owners of waterworks which supplied a burgh, instead of carrying out their original intention of constructing additional waterworks, purchased from another water undertaking, in return for a lump sum payment, a perpetual right to a definite supply of water annually. They borrowed the purchase money, under an arrangement by which they were to repay it in 40 years by half-yearly instalments of principal and interest combined. These instalments were met out of the water rates which they levied.

It was held by the Court of Session that in valuing the council's waterworks upon the revenue principle, no deduction fell to be made in respect of these half-yearly payments.

(C.S.; (1927) S.C., 464.)

### MISCELLANEOUS.

#### **Stott v. Shaw.**

##### *Consideration not adequately stated in Bill of Sale.*

A bill of sale is not void, on the ground that the consideration is not adequately stated, merely because the amount stated as the consideration has not actually passed from grantee to grantor, and a clause in a collateral security giving the grantee an additional right *in personam*, does not necessarily amount to a defeasance or condition within section 10 (3) of the Bills of Sale Act, 1878.

(K.B.; (1928) L.J.N., 73.)

### REVENUE.

#### **H. & C. Stephenson v. Waller.**

##### *What is a Seller of Milk.*

By Rule 4 of the Rules applicable to Case III of Schedule D of the Income Tax Act, 1918, "if the Commissioners find that lands which have been charged under Schedule B on the assessable value, and which are occupied by a dealer in cattle or a dealer in or a seller of milk, are insufficient for the keep of the cattle brought on to the lands, so that the assessable value affords no just estimate of the profits, they may require a statement of the profits to be delivered, and charge such further sum thereon as, together with the charge under Schedule B, will make up the full sum wherewith the dealer or seller ought to be charged according to Rule 2 of the rules applicable to this Case."

It was held that a farmer may be a "seller of milk" within the above rule even though he merely sells, by wholesale, the milk produced on his farm, and it is not necessary that, to come within the rule, he should own some outside trading organisation for the disposal of the milk.

(K.B.; (1928) 44 T.L.R., 155.)

#### **Peel v. Inland Revenue.**

##### *Not Ordinarily Resident in the United Kingdom.*

The beneficial owner was born in England, educated in the United Kingdom, went to Egypt at the age of 17 to join a business with which his father had been concerned, married and set up a large establishment in Egypt. He owned a mansion house and estate in Scotland which was occupied by his wife and children during the children's holidays, and by himself for four or five months in the year, and resided in the United Kingdom for 166 days during the year in which he was taxed.

The Court of Session held that there was sufficient evidence to support a finding that he was ordinarily resident in the United Kingdom during the year in question.

(C.S.; (1928) S.L.T., 97.)

#### **Inland Revenue v. Scottish Central Electric Power Company.**

##### *Deductions for Income Tax.*

The Court of Session held that for the purpose of assessment to income tax under Schedule D, Rules applicable to Cases I and II, Rule 5, of the Income Tax Act, 1918, the company was entitled to deduct the whole annual value of its trading premises and not merely the sum arrived at after deduction from the annual value of the various reliefs, abatements, repayments and deductions allowed under Schedule A.

(C.S.; (1928) S.L.T., 99.)

#### **Attorney-General v. Bellilos.**

##### *Estate and Succession Duty.*

Under the will made in English form of a testator domiciled in Hong Kong his residuary property, which mainly consisted of investments in local companies and real estate in Hong Kong, was left, subject to an annuity to his widow, upon trust for his son for life, with remainder to the son's two infant children. The testator died in 1905. The tenant-for-life desiring to borrow money, the lenders insisted on English trustees being appointed, and by a deed of appointment made in 1911 he appointed English trustees of the settlement along with himself. Later, it having been discovered that the tenant-for-life, while sole trustee, had drawn upon the capital of the trust funds, various applications were made, against his wish, to the English Court of Chancery for directions regarding the administration of the trust, and orders were made thereon, and his sons were made wards of Court. The trust property remained in Hong Kong. The tenant-for-life died in 1922.

It was held by the Court of Appeal, reversing the decision of Rowlatt (J.) (see *Incorporated Accountants' Journal*, September, 1927, p. 453), that the succession was originally a foreign succession, having been established by the death of the testator abroad in 1905, and that it could not be changed into an English succession or settlement by any acts of the successors not amounting to an entirely new disposition, and that as there was no direction in the testator's will directing that any trust should be established in England, it remained a succession under the laws of Hong Kong, and the property was not liable to estate duty.

(C.A.; (1928) 44 T.L.R., 214.)

#### **Inland Revenue Commissioners v. Anderstrom.**

##### *Income Tax on Annual Payment Received under Foreign Decree.*

A wife, resident in the United Kingdom, was in receipt of an annual payment from her husband, a foreigner, made by him in terms of a decree of divorce pronounced against him by the Courts of his domicile.

The Court of Session held that the wife was properly assessed to income tax under Schedule D, Case V, Income Tax Act, 1918, the annual payments received under the decree of divorce being income arising from a possession out of the United Kingdom.

(C.S.; (1928) S.L.T., 115.)